Chemring
Innovating to protect

3 JUNE 2020

CHEMRING GROUP PLC

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

INTERIM RESULTS FOR THE SIX MONTHS TO 30 APRIL 2020

	As reported		***At H1 2019 exchange rates***		
	H1 2020	***Change***	*H1 2020*	*Change*	H1 2019
Continuing operations					
Revenue (£m)	**191.0**	**+37%**	*191.7*	*+38%*	139.3
Underlying EBITDA*(£m)**	**35.2**	**+73%**	*35.0*	*+72%*	20.3
Underlying operating profit* (£m)	**25.6**	**+112%**	*25.4*	*+110%*	12.1
Underlying profit before tax* (£m)	**24.2**	**+144%**	*24.0*	*+142%*	9.9
Underlying earnings per share* (pence)	**7.1**	**+154%**	*7.0*	*+150%*	2.8
Statutory operating profit (£m)	**20.4**	**+214%**			6.5
Interim dividend per share (pence)	**1.3**	**+8%**			1.2
Net debt at 30 April (£m)**	**60.6**	**-28%**	*58.6*	*-30%*	84.0

Highlights

- H1 performance was ahead of our expectations reflecting strong performance in both segments and some positive timing differences.
- All our businesses have remained open despite the challenges caused by COVID-19.
- Safety remains a core value and together with enhancing operational resilience and efficiency is driving investment in the Group's manufacturing infrastructure.
- Continued progress on the US Programs of Record. Further orders received in the period for the next phase of HMDS delivery, valued at $32m, with the HMDS IDIQ increased by a further $200m post period end with an initial delivery order placed for $21m. In May, we were pleased that the customer approved and awarded the contract modification for Low Rate Initial Production for the EMBD program.
- Strong growth in orders and revenue for Roke including strategically important first Electronic Warfare order for Resolve into the US DoD.
- Good progress made on securing new business in the UK, US and Australia for the supply of global countermeasures, including Chemring Australia receiving a definitised contract of $107m in support of the F-35.
- Sale of Chemring Ordnance, Inc., completed on 7 May 2020, concluding our strategic exit from commoditised energetics.
- Significant reduction in net debt with strong operational cash generation partially offset by scheduled capital expenditure and the adoption of IFRS16.
- Group's liquidity improved as a result of obtaining an additional short term facility for £100m, of which £50m has been drawn. Interest costs reduced with repayment of $83.6m of 5.68% private placement loan notes using the existing revolving credit facility.
- Board's full year expectations are unchanged, despite the challenging environment. Approximately 95% of expected H2 revenue is in the order book or has been delivered to date.

Michael Ord, Chemring Group Chief Executive, commented:

"As a global team we are working to build a stronger and higher quality business, and the resilience the Group has demonstrated during the coronavirus pandemic shows we are making solid progress. Despite the changing and challenging environment in which we are currently working, we have delivered a strong performance in the first half of the year.

Our sites have remained open and we have made every effort to sustain operations in support of our customers and their essential defence and security missions.

Safety is our core value, with the health, safety and well-being of our colleagues, their families, our customers and the communities in which we operate being our priority throughout. The response of our people has been outstanding. They have risen to and exceeded the challenge, adapting working environments and practices to minimise the spread of the virus. I would like to thank all of my colleagues across the Group for their commitment, innovation and hard work.

Noting the challenges presented by the coronavirus pandemic, some positive timing differences which benefited the first half, and with approximately 95% of expected H2 revenue already in the order book or delivered to date, the Board's expectations for the full 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 H1 2020 net debt balance reflects the initial recognition of a £6.5m finance lease liability and £0.9m of the increase in underlying EBITDA is as a result of applying IFRS 16 *Leases* (effective 1 November 2019). The H1 2019 net debt balance and underlying EBITDA have not been restated, in line with the modified retrospective approach taken.

The principal Alternative Performance Measures ("APMs") presented are the underlying measures of earnings which exclude discontinued operations, exceptional items, gain or loss on the movement on the fair value of derivative financial instruments, 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.

EBITDA is defined as operating profit before interest, tax, depreciation and amortisation. Reference to constant currency relates to the re-translation of HY20 financial information at the HY19 exchange rates to reflect the movement excluding the impact of foreign exchange. The exchange rates applied are disclosed in note 14.

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

Group - continuing operations:	**Underlying**	**Non-underlying**	**Statutory**
EBITDA (£m)	35.2	-	35.2
Operating profit (£m)	25.6	(5.2)	20.4
Profit before taxation (£m)	24.2	(5.2)	19.0
Tax charge (£m)	(4.3)	1.6	(2.7)
Profit after tax (£m)	19.9	(3.6)	16.3
Basic earnings per share (pence)	7.1	(1.3)	5.8
Diluted earnings per share (pence)	6.9	(1.2)	5.7
Group - discontinued operations:			
Loss after tax (£m)	(0.1)	(0.1)	(0.2)
Segments - continuing operations:			
Sensors & Information EBITDA (£m)	15.1	-	15.1
Sensors & Information operating profit (£m)	13.3	(3.2)	10.1
Countermeasures & Energetics EBITDA (£m)	25.4	-	25.4
Countermeasures & Energetics operating profit (£m)	17.6	(1.2)	16.4

The adjustments to continuing operations comprise:

- amortisation of acquired intangibles of £4.4m (H1 2019: £5.6m, 2019: £12.1m)
- loss on the movement in the fair value of derivative financial instruments of £0.8m (H1 2019: £nil, 2019: £0.6m loss)
- tax impact of adjustments of £1.6m credit (H1 2019: £1.2m credit, 2019: £4.3m credit)

Further details are provided in note 3.

The discontinued operations loss after tax comprises:

- operating loss of £0.1m (H1 2019: £2.0m loss, 2019: £3.5m loss)
- exceptional items of £0.1m loss (H1 2019: £3.1m loss, 2019: £1.0m loss)
- loss on disposal of a subsidiary of £nil (H1 2019: £1.8m loss, 2019: £2.8m loss)
- tax credit on the above of £nil (H1 2019: £3.0m credit, 2019: £6.1m credit)

Further details are provided in note 9.

For further information:

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Cautionary statement

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

Notes to editors

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

A video presentation and accompanying slides will be available at the Chemring Group results centre www.chemring.co.uk/investors/results-centre at 07.00 (UK time) on Wednesday 3 June 2020.

Photography

Original high resolution photography is available to the media by contacting Catherine Chapman, MHP Communications: catherine.chapman@mhpc.com / tel: +44 (0) 20 3128 8100.

INTERIM MANAGEMENT REPORT

COVID-19 UPDATE

The result of our focus on “Building a Stronger Business” over the past 18 months has been demonstrated by the resilience the Group has shown during the last three months as the COVID-19 (“CV-19”) pandemic developed across the globe.

People

Our priority is the health, safety and well-being of our people, their families, our customers and the communities in which we operate. We continue to focus on risk mitigation and business continuity, and are implementing the latest government and health authority recommendations in each of our home markets.

Our people have risen to the challenge, adapting their working practices to minimise the spread of the virus, whilst continuing to focus on the critical needs of our customers.

Operations

In the US, the UK and Norway, Chemring’s operations have been designated as critical to the defence and national security industrial base, and in Australia the risk of business interruption is considered to be low. All our businesses remain open, with business continuity plans mobilised at every location. We continue to make every effort to maintain delivery of essential services and manufacturing production in support of our customers.

Customers

We are proud of the essential contribution that Chemring makes to the ongoing defence and national security missions of our customers and we are committed to supporting them throughout this crisis and beyond.

The Group has a strong order book with order cover for the remainder of the 2020 financial year of 95%. In the first half of 2020, order intake was £250m which was 1% up on the same period last year leaving the Group with an order book of £504m.

Our manufacturing businesses continue to work closely with their customer representatives to deliver timely testing and acceptance of products. To date we have worked through some CV-19 related disruptions where customer representatives have not been able to complete product acceptance procedures on a timely basis and going forward this presents a risk of some short-term revenue deferrals. Our wide geographic and customer base provides some mitigation to this potential short-term risk.

Liquidity

In addition to cash in hand of £104m, the Group has total available undrawn facilities of £84m providing £188m of immediately available liquidity. Period end net debt of £60.6m, which represents a rolling 12 month Net debt: EBITDA ratio of 0.8x, leaves the Group’s balance sheet robust and supports its ongoing development.

Forward guidance

The duration and impact of CV-19 across our home markets is at this stage unknown, and we are clearly working in a changing and more challenging environment. We will continue to work closely with our customers, suppliers and other stakeholders, and will provide further updates as appropriate.

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

Group overview

The Group has recorded a good first half performance and the Board’s expectations for the full year remain unchanged. The Group’s revenue was up 37% to £191.0m (H1 2019: £139.3m, 2019: £335.2m) and underlying operating profit was up 112% to £25.6m (H1 2019: £12.1m, 2019: £44.0m). Underlying earnings per share was up 154% to 7.1p (H1 2019: 2.8p, 2019: 11.2p).

In the Sensors & Information segment, there has been continued progress on the US Programs of Record with further delivery orders received for the next phase of the Husky Mounted Detection System ("HMDS") IDIQ, valued at $32m. Post period end a contract modification was received which increased the existing IDIQ by a further $200m with an initial delivery order placed for $21m. Also in May, we were pleased that the customer approved and awarded the contract modification for Low Rate Initial Production ("LRIP") for the EMBD program. In addition, Roke has recorded double digit growth in revenues and operating profit, and received a strategically important first Electronic Warfare ("EW") order for Resolve into the US.

In Countermeasures & Energetics, order intake, albeit down slightly by 4% as a result of our Norwegian business securing multi-year orders in the prior year, was still strong at £163m. This was driven by high levels of activity in the important US market and our Australian subsidiary's undefinitised contract of $60m has now been definitised at a value of $107m on the F-35 programme. In addition, Chemring Countermeasures USA was awarded contracts totalling $77m to supply expendable countermeasures to the US Air Force and US Navy. The significant capital investment programmes are progressing as planned.

On 7 May 2020, Chemring announced that we had completed the disposal of our US subsidiary Chemring Ordnance, Inc. ("COR") for $17m in cash. This concludes our programme of disposals which has reduced the Group's exposure to a significant amount of operational and reputational risk, and enables greater focus on the niche specialist energetic devices and materials businesses.

Net debt was £60.6m at the end of the period (H1 2019: £84.0m, 2019: £75.7m). The current debt level reflects the recognition of a £6.5m finance lease liability as a result of applying IFRS 16 *Leases* (effective 1 November 2019), and the previously announced high level of capital expenditure in 2020 which has been funded by continued strong operational cash generation. Underlying operating cash inflow of £56.2m (H1 2019: £21.9m, 2019: £63.9m) represented 160% (H1 2019: 108%, 2019: 104%) of EBITDA.

On 19 November 2019, the final tranche of 5.68% Private Placement Loan Notes of $83.6m was repaid. This was funded from the Group's £145m multi-currency Revolving Credit Bank facility. In response to the emerging CV-19 pandemic and the risk of business disruption, in April 2020 the Group obtained an additional short-term £100m facility of which £50m has been drawn, to further strengthen the Group's liquidity position.

The Group's continuing order book at 30 April 2020 was £504m (H1 2019: £494m, 2019: £449m), of which approximately £179m is scheduled for delivery during H2 2020. This represents cover of approximately 95% of expected H2 revenue. The increase since 31 October 2019 is primarily attributable to the countermeasures orders received by our US and Australian subsidiaries and HMDS IDIQ orders.

Markets

Global defence spending remains focused on the shift from asymmetric operations to near-peer threats, with customers continuing to drive requirements across Chemring's capabilities.

The impact of the CV-19 pandemic has yet to be fully evaluated. While we expect the defence market to be relatively resilient, we anticipate a slow-down in global defence budget growth, and the potential for short-term reductions in acquisition budgets. We continue to target those areas of the market that should show resilience and where we have niche market positions, sustainable competitive advantage and strong customer relationships.

In the Sensors & Information sector, our current strong positions in Explosive Hazard Detection and Chemical and Biological Detection is expected to be enhanced by market share growth in EW and cyber security. Chemring is a key provider of capability to our clients in defence and national security, and with a growing concern about many national and international threats, our customers are continuing to increase demand for our services. As CV-19 changes how our customers protect and secure borders, monitor threats and work to re-open global air travel, we see growing interest in civil applications for some of our products and services including our chemical and biological agent detection portfolio that may convert to revenue opportunities over the medium term.

The US remains the largest market for the Sensors & Information sector, and will continue to follow traditional acquisition paths in pursuit of agility as they look to outpace threats, particularly in the intelligence and surveillance domains. The FY21 President's Budget Request projects the US Department of Defense's ("US DoD") five-year program to reach $747bn in FY24. This provides growth to sustain personnel increases in all four services, major equipment programmes such as the F-35, investments in technology innovation in electronic warfare, the increased use of unmanned systems and cyber capabilities, as well as renewed emphasis on space-based surveillance systems.

Changes in focus are driven by new defence strategies that prioritise near-peer competition and look to enhance the technological effectiveness of systems through the convergence of EW, Signals Intelligence ("SIGINT") and Cyber across domains, as well as the development of new capabilities across the electromagnetic spectrum. This more agile approach to procurement and the need to keep pace with rapidly evolving and complex threats aligns well with our Sensors & Information strategy.

The Countermeasures & Energetics sector remains robust. Chemring continues to maintain its market leading position in the addressable air countermeasures market; growth in the sector over the next five years is primarily being driven by increased 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 order book.

In Energetics our focus remains on the high value niche areas of the market where market conditions continue to strengthen. Demand for our range of energetic devices, propellant and explosive products continues to grow year on year. Increasingly customers are signing long-term contracts in order to secure supply and this improved visibility is enabling greater focus on our investment into manufacturing capacity, efficiency and product R&D.

Health, safety and environment

CV-19 is an unprecedented global challenge that Chemring has responded to in a controlled and rapid manner. In March 2020 Chemring commenced its response and began to introduce a number of controls, with its Crisis Management Team being formally activated. The controls included restriction on travel and visitors, enhanced cleaning regimes, personal hygiene campaigns, action on presumptive cases of CV-19 exposure, decontamination protocols, alternative working arrangements and social distancing.

To date there have been four employees across the Group that have tested positive for CV-19 which arose from non-work related exposures. In all cases precautionary measures were taken to prevent the risk of further exposure. Chemring continues to work to Government guidelines and is adapting its controls in light of new scientific and medical knowledge.

In the second half of the period, the implementation of the three year strategic plan for this year has been adapted in light of CV-19 restrictions. Our safety performance in terms of recordable injury rates (Total Recordable Injury Frequency Rates) is at 1.13 versus 1.32 for the same period last year. This is based on Occupational Safety and Health Administration reporting, and represents 27 versus 32 recordable injuries respectively. These incidents have predominantly related to muscular injuries, slips, trips and falls, the causes of which are currently being addressed.

Whilst CV-19 has restricted the implementation of some of this year's activities, work continues on the focus area of asset integrity and process safety. All businesses in Countermeasures & Energetics have undergone an external review in relation to maintenance and more broadly, asset integrity. Assessments have been completed and our businesses are developing roadmaps to improve safety and reliability of assets that underpin strong performance in the area of process safety. In addition two sub-committees have been formed with experts from across the Group focusing on process safety and environmental sustainability. The remit of these committees is to ensure that best practices are shared across the Group and to develop ongoing guidance and standards. The Environmental Sustainability sub-committee is working on the development of Chemring's long-term strategy to reduce our carbon footprint as part of our commitment to reducing climate change.

Financial performance and position

CV-19 financial management response

As the risk of CV-19 emerged in mid-March 2020, the Group focused on three key financial areas:-

- Ensuring available liquidity was maximised
- Optimising commercial terms to positively impact cash flow
- Carefully managing discretionary spend and capex

Liquidity

At the outset of the CV-19 pandemic, given the potential for adverse trading conditions, the management team believed it was important to increase available liquidity to ensure the Group had access to sufficient funds should there be a change in trading circumstances.

The Group drew a further £50m of its £145m RCF in March 2020 and secured an additional short-term facility of £100m, of which £50m was drawn in April 2020.

This left the Group with £104m of cash in hand at the end of the period, with a further £84m of facility available to draw if required, providing the necessary immediately available liquidity to respond flexibly to any reasonably foreseeable change in circumstances.

Operating cash and net debt

Early engagement with our customers ensured cash was received on time and in some cases early. This has resulted in approximately £15m of receivables being pulled into the first half, which were expected in the second half.

Governments in our jurisdictions have introduced revised payment schedules for sales and payroll taxes and this has resulted in approximately £3m of payments being deferred into the second half.

Revenue and operating profit

We identified the risk of customer testing and acceptance of goods as having the potential to adversely impact the timing of revenue recognition. This did not materialise at the half year, in fact in some cases we were able to accelerate delivery dates with customers, including part-shipments, which contributed to the strong revenue performance in the first half.

We have also reviewed the level of discretionary spend, particularly in the area of travel, subsistence and marketing. Given the timing, this has only had a marginal positive impact on the half year.

All of these areas will be kept under review as the current CV-19 situation evolves. The Group recognises that some of what occurred in the half year represented timing differences that will reverse in the second half.

Group financial performance

Order intake for continuing operations for H1 2020 was up 1% to £250m (H1 2019: £248m, 2019: £411m), driven by the release of further delivery orders on the HMDS IDIQ contract as well as orders awarded to the Australian and US countermeasures businesses.

As expected, revenue from continuing operations for the period was up 37% to £191.0m (H1 2019: £139.3m, 2019: £335.2m), as the countermeasures facilities in Salisbury and Australia were operational, as well as strong performance in the Sensors & Information segment. While the CV-19 situation does present a risk to short-term deliveries due to customer testing and acceptance procedures, there was no evidence of this at 30 April 2020.

The underlying operating profit from continuing operations of £25.6m (H1 2019: £12.1m, 2019 £44.0m) resulted in an underlying operating margin of 13.4% (H1 2019: 8.7%, 2019: 13.1%). The improved margin compared to H1 2019 primarily reflects the improving operational execution in the Countermeasures & Energetics segment.

Insurance recoveries of £5.2m (H1 2019: £13.0m, 2019: £15.0m) are included within the result for the period in relation to the incident in 2018 at the UK Countermeasures site. This largely offset the additional costs of the phased restart, which included some production inefficiencies as the site increased volumes.

Foreign exchange translation has provided a minor tailwind to operating 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 2019 with the average rate moving from $1.30 to $1.28. On a constant currency basis, restating the current period at the H1 2019 average rate, revenue would have risen 38% to £191.7m and underlying operating profit would have risen 110% to £25.4m.

Total finance expense was lower at £1.4m (H1 2019: £2.2m, 2019: £4.6m). This was driven by the repayment of the final tranche of 5.68% Private Placement Loan Notes early in the period and the continued focus on the efficient management of working capital.

Underlying profit before tax from continuing operations was £24.2m (H1 2019: £9.9m, 2019: £39.4m). The effective tax rate on the underlying profit before tax from continuing operations was 17.8% (H1 2019: 20.2%, 2019: 20.1%). The underlying earnings per share from continuing operations was 7.1p (H1 2019: 2.8p, 2019: 11.2p).

Statutory operating profit from continuing operations was £20.4m (H1 2019: £6.5m, 2019: £31.3m) and after statutory finance expenses of £1.4m (H1 2019 £2.2m, 2019: £4.6m), statutory profit before tax was £19.0m (H1 2019: £4.3m, 2019: £26.7m) giving a statutory earnings per share from continuing operations of 5.8p (H1 2019: 1.3p, 2019: 8.2p). The statutory loss from discontinued operations was £0.2m (H1 2019: £3.9m, 2019: £1.2m) giving a statutory profit of £16.1m (H1 2019: £0.4m loss, 2019: £21.9m profit) 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 2020 related to the amortisation of acquired intangibles and the tax credit associated with this as well as a loss on the movement in the fair value of derivative financial instruments.

Revenue from discontinued operations fell to £8.5m (H1 2019: £32.2m, 2019: £43.4m) and underlying operating loss fell to £0.1m (H1 2019: £2.0m, 2019: £3.5m) primarily as a result of the disposal of our commodity energetics businesses during 2019.

Segmental review - Sensors & Information

Performance

Order intake in the period of £87m (H1 2019: £79m, 2019: £134m) 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 25% to £67.3m (H1 2019: £53.8m, 2019: £131.9m) and underlying operating profit increased to £13.3m (H1 2019: £10.0m, 2019: £26.3m), as underlying operating margin improved to 19.8% (H1 2019: 18.6%, 2019: 19.9%). The Sensors business in the US has continued with 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.

In the UK, the markets for electronic warfare, cyber-security and data science capabilities, in which Roke is a leading participant, have remained buoyant in the period. Roke delivered double digit growth in revenue and underlying operating profit and has maintained strong margins despite increased investment in people, infrastructure and product development. In addition, Roke secured a strategically important first EW order for Resolve into the US DoD.

On a constant currency basis revenue would have risen 24% to £66.9m and underlying operating profit would have been up 32% to £13.2m.

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

The US DoD's Explosive Hazard Detection HMDS program, which encompasses concurrent development, trialling, and manufacturing, continues to progress as expected. Under the previously awarded IDIQ sole-source contract vehicles, further delivery orders of $32m were received in the period, providing visibility on this Program of Record well into FY21. The production phase is progressing as planned and customer deliveries were made on schedule in the first half of the year. Post period end a contract modification was received which increased the existing IDIQ by a further $200m with an initial delivery order placed for $21m.

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

On the Joint Biological Tactical Detection System ("JBTDS") program, following the Biological Point System Assessment in FY19/20, we are making some customer requested technical changes and enhancements and now expect a customer procurement decision in FY22.

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

The Aerosol and Vapor Chemical Agent Detector program ("AVCAD") is progressing through the EMD phase as expected. The EMD and LRIP phases are expected to be worth approximately $18m in the period to 2022. Following this, the customer is expected to have a requirement of up to $800m. Chemring is currently one of two contractors selected for this competitive program. In October 2019, following a successful critical design review, we received an order for a further 75 units under the EMD phase of the program which we expect to deliver during 2020. The next customer procurement decision point is expected to be at the conclusion of the EMD phase in 2021.

Opportunities and outlook

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

In the US, HMDS program deliveries are on schedule with good medium-term visibility and the focus continues to be ensuring the Virginia and North Carolina facilities are mobilised and resourced to maximise Chemring's opportunity on chemical and biological Programs of Record.

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

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

Following a strategic focus and collaboration between Roke and our US Sensors business, Roke has secured its first order in the potentially significant US electronic warfare market. We will support the customer through product trials and evaluation with a view to securing further orders to meet their operational deployment requirements. Establishing a foothold in the electronic warfare market in the US was a key strategic objective for the Sensors & Information sector in FY20.

The order book for Sensors & Information at 30 April 2020 increased since the year end to £97m (H1 2019: £99m, 2019: £80m). While the Roke business remains a short-cycle order book business, the segment has orders of approximately £57m for delivery in the second half of the year, representing 89% coverage of expected H2 revenue.

Segmental review - Countermeasures & Energetics

Performance

Order intake in the period of £163m (H1 2019: £169m, 2019: £277m) has continued to be strong, particularly in the significant US market. Chemring Countermeasures USA was awarded contracts totalling $77m to supply expendable countermeasures to the US Air Force and US Navy. Deliveries under these contracts will be made in FY20 and FY21.

As expected, revenue increased by 45% to £123.7m (H1 2019: £85.5m, 2019: £203.3m) as the Australian and Salisbury facilities were operational after the F-35 fit-out and phased restart in 2019. The segment reported an underlying operating profit of £17.6m (H1 2019: £7.1m, 2019: £27.5m) as underlying operating margin improved to 14.2% (H1 2019: 8.3%, 2019: 13.5%) driven by improved operational execution. On a constant currency basis revenue would have increased by 46% to £124.8m and operating profit would have been up 146% to £17.5m.

Insurance recoveries of £5.2m (H1 2019: £13.0m, 2019: £15.0m) are included within the result for the period in relation to the incident in 2018 at the UK Countermeasures site. This largely offset the additional costs of the phased restart, which included some production inefficiencies as the site increased volumes.

The Tennessee capacity expansion programme, designed to address the expected F-35 demand from the US Government, continues to progress on schedule. During the period £11m was spent on the facility, bringing the total spend to date to £25m. The expected total cost of the programme is approximately £50m with the first incremental revenues from this facility expected in FY22.

Our Australian facility, which was closed for the majority of FY19 to be refitted and qualified for F-35 production, is now fully operational and deliveries of F-35 countermeasures have commenced. Its undefinitised contract with the US DoD of $60m, announced in May 2019, has now been definitised at a value of $107m on the F-35 programme.

Our niche energetics devices businesses enjoyed another strong period driven by favourable market conditions and improving operational execution.

Chemring Countermeasures UK and Chemring Energetics UK both signed long-term framework contract agreements with the UK MOD covering the next five years, with a further two year option. Initial delivery orders under these frameworks are expected later this year.

Opportunities and outlook

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

Material Decoy market.

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

Countermeasures & Energetics' order book at 30 April 2020 was £407m (H1 2019: £395m, 2019: £369m). The increase is a result of strong order intake in the US and Australia on the F-35 programme. Of the 30 April 2020 order book, approximately £122m is currently expected to be delivered in the second half of 2020, representing 98% coverage of expected H2 revenue.

Discontinued operations

Revenue for the discontinued commodity Energetics business decreased by 74% to £8.5m (H1 2019: £32.2m, 2019: £43.4m), generating an underlying operating loss of £0.1m (H1 2019: £2.0m, 2019: £3.5m).

As announced, on 7 May 2020, Chemring sold its US subsidiary Chemring Ordnance, Inc. ("COR") after the period end, completing the Group's exit from its commoditised energetics businesses.

Net debt and cash flow

Net debt at 30 April 2020 was £60.6m (H1 2019: £84.0m, 2019: £75.7m). The net debt level reflects the initial recognition of a £6.5m finance lease liability as a result of applying IFRS 16 *Leases* (effective 1 November 2019). The strengthening of the US Dollar from $1.29 as at 31 October 2019 to $1.26 as at 30 April 2020 has resulted in an increase in reported net debt of £2.3m.

Underlying continuing operating activities generated cash of £56.2m (H1 2019: £21.9m, 2019: £63.9m), reflecting the short-term actions taken in light of the CV-19 pandemic to strengthen the Group's liquidity position, customer receipts being pulled into the first half and the continued focus on the efficient management of working capital. It is not known at this stage at what point these timing differences will reverse. Continuing cash conversion was 160% (H1 2019: 108%, 2019: 104%) of continuing underlying EBITDA, showing the continued focus on working capital improvements, in addition to the CV-19 actions, is delivering positive results.

Working capital

Working capital relating to the continuing businesses was £70.6m (H1 2019: £80.5m, 2019: £90.5m), a decrease of £19.9m since year end. The reduction compared to prior periods is mainly as a result of the timing differences created by the management actions taken in response to CV-19.

Debt facilities

On 19 November 2019, the final tranche of the 5.68% Private Placement Loan Notes of $83.6m was repaid. This was funded from the Group's £145m multi-currency Revolving Credit Bank facility. The revolving credit facility is with a syndicate of five banks and runs to October 2022, with an option to extend by two years.

In April 2020, the Group obtained a facility of £100m from the Bank of England's COVID Corporate Financing Facility to further strengthen the Group's financial position. Of this £50m was drawn.

The Group had £83.6m (H1 2019: £117.3m, 2019: £130.2m) of undrawn borrowing facilities at the half year. These undrawn facilities, together with the cash in hand of £104.2m, provide the Group with £187.8m of immediately available liquidity.

Retirement benefit obligations

The surplus on the Group's defined benefit pension scheme was £4.8m (H1 2019: £7.8m, 2019: £9.6m), measured in accordance with IAS 19 (Revised) *Employee Benefits*.

The surplus relates to the Chemring Group Staff Pension Scheme (the "Scheme"), a UK defined benefit scheme whose assets are held in a separately administered fund. The Scheme was closed to future accrual in April 2012. A full actuarial valuation for the Scheme as at 6 April 2018 has been prepared and updated to 30 April 2020, using the projected unit credit method. This valuation showed a surplus of £4.8m (H1 2019: £7.8m, 2019: £9.6m). The fall in the surplus has been driven by market movements in the second half of the period following the CV-19 impact on equity and bond markets. The resilience of the Scheme's investment strategy has limited this impact.

The 6 April 2018 triennial valuation showed a technical provisions deficit of £5.8m, which represented a funding level of 94% of liabilities. Subsequently, £6.25m has been paid and no further deficit payments are required. 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 4 March 2020 the shareholders approved a final dividend in respect of the year ended 31 October 2019 of 2.4p per ordinary share. This was paid on 24 April 2020 to shareholders on the register on 3 April 2020.

The Board has declared an interim dividend in respect of the 2020 financial year of 1.3p per ordinary share which will be paid on 11 September 2020 to shareholders on the register on 21 August 2020. In accordance with accounting standards this dividend has not been recorded as a liability as at 30 April 2020. The Board will continue to keep dividends under review during the current Covid-19 situation. The Board's intention remains to pay a sustainable dividend.

Board of Directors

On 16 December 2019 the Group announced that Nigel Young had indicated his intention to retire from his role as a non-executive director when his current appointment came to an end. Nigel formally stood down from the Board on 30 April 2020. Nigel served as a non-executive director since 1 May 2013 following his appointment as Interim Chief Financial Officer in August 2012 and was the Senior Independent Director from March 2016. During his tenure the Group has been through a period of significant transformation and the Group is grateful for his guidance and commitment to Chemring. Nigel's role as Senior Independent Director was assumed by Andrew Davies on 1 May 2020.

Separately the Group has announced today the appointment of Fiona MacAulay as a non-executive director. Fiona is currently a non-executive director and Chair of the Remuneration Committee at Ferrexpo plc; Chairman and

Chair of the Remuneration Committee at Independent Oil & Gas plc; and a non-executive director and Chair of the Health & Safety Committee at Coro Energy plc. She joins the Board of Chemring with immediate effect.

Medium-term financial objectives

The Group has previously (March 2019) 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 per annum for FY19, FY20 and FY21 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

The Board notes the positive timing differences which benefited the first half's results and having regard to the fact that approximately 95% of expected H2 revenue is in the current order book or has been delivered to date, the Board's full year expectations are currently unchanged.

The duration and impact of CV-19 across our home markets is at this stage unknown, and we are clearly working in a changing and more challenging environment. The ability of our customers to test and accept goods remains a short-term risk to revenue recognition. We will continue to work closely with our customers, suppliers and other stakeholders, and will provide further updates as appropriate.

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

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	**Andrew Lewis**
Group Chief Executive	**Group Finance Director**
3 June 2020	**3 June 2020**

CONDENSED CONSOLIDATED INCOME STATEMENT

for the half year to 30 April 2020

	Note	**Underlying performance* £m**	**Non-underlying items* £m**	**Total £m**	Underlying performance* £m	Non-underlying items* £m	Total £m
				Unaudited Half year to 30 April 2020			Unaudited Half year to 30 April 2019
Continuing operations							
Revenue	2	**191.0**	**-**	**191.0**	139.3	-	139.3
Operating profit	2	**25.6**	**(5.2)**	**20.4**	12.1	(5.6)	6.5
Finance expense		**(1.4)**	**-**	**(1.4)**	(2.2)	-	(2.2)
Profit before tax		**24.2**	**(5.2)**	**19.0**	9.9	(5.6)	4.3
Tax charge on profit	5	**(4.3)**	**1.6**	**(2.7)**	(2.0)	1.2	(0.8)
Profit after tax		**19.9**	**(3.6)**	**16.3**	7.9	(4.4)	3.5
Discontinued operations							
(Loss)/profit after tax from discontinued operations	3,9	**(0.1)**	**(0.1)**	**(0.2)**	1.0	(4.9)	(3.9)
Profit/(loss) after tax for the period		**19.8**	**(3.7)**	**16.1**	8.9	(9.3)	(0.4)

	Note	**Underlying performance***	**Total**	Underlying performance*	Total
			Unaudited Half year to 30 April 2020		Unaudited Half year to 30 April 2019
Earnings/(loss) per ordinary share					
Continuing operations					
Basic	6	**7.1p**	**5.8p**	2.8p	1.3p
Diluted	6	**6.9p**	**5.7p**	2.7p	1.2p
Continuing operations and discontinued operations					
Basic	6	**7.0p**	**5.7p**	3.2p	(0.1)p
Diluted	6	**6.9p**	**5.6p**	3.1p	(0.1)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 2020

	Note	Underlying performance* £m	Non-underlying items* £m	Audited Year to 31 Oct 2019 Total £m
Continuing operations				
Revenue	2	335.2	-	335.2
Operating profit	2	44.0	(12.7)	31.3
Finance expense		(4.6)	-	(4.6)
Profit before tax		39.4	(12.7)	26.7
Tax charge on profit	5	(7.9)	4.3	(3.6)
Profit after tax		31.5	(8.4)	23.1
Discontinued operations				
Profit/(loss) after tax from discontinued operations	3,9	2.7	(3.9)	(1.2)
Profit after tax for the year		34.2	(12.3)	21.9

	Note	Underlying performance* £m	Audited Year to 31 Oct 2019 Total £m
Earnings per ordinary share			
Continuing operations			
Basic	6	11.2p	8.2p
Diluted	6	11.0p	8.1p
Continuing operations and discontinued operations			
Basic	6	12.2p	7.8p
Diluted	6	12.0p	7.7p

* 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 2020

	Unaudited Half year to 30 April 2020 £m	Unaudited Half year to 30 April 2019 £m	Audited Year to 31 Oct 2019 £m
Profit/(loss) after tax attributable to equity holders of the parent	**16.1**	(0.4)	21.9
Items that will not be reclassified subsequently to profit or loss			
Actuarial (losses)/gains on defined benefit pension schemes	**(4.8)**	(0.3)	1.6
Movement on deferred tax relating to pension schemes	**1.7**	0.1	(0.7)
	(3.1)	(0.2)	0.9
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	**2.7**	(5.3)	(5.2)
Tax on exchange differences on translation of foreign operations	**(0.6)**	0.5	0.2
	2.1	(4.8)	(5.0)
Total comprehensive profit/(loss) attributable to equity holders of the parent	**15.1**	(5.4)	17.8

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year to 30 April 2020

Unaudited half year to 30 April 2020

	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2019	2.8	306.2	12.9	1.0	(17.8)	8.5	(7.8)	305.8
Profit after tax	-	-	-	-	-	16.1	-	16.1
Other comprehensive income/(loss)	-	-	-	-	2.7	(4.8)	-	(2.1)
Tax relating to components of other comprehensive income	-	-	-	-	(0.6)	1.7	-	1.1
Total comprehensive income	-	-	-	-	2.1	13.0	-	15.1
Share-based payments (net of settlement)	-	-	-	-	-	1.8	-	1.8
Dividends paid	-	-	-	-	-	(6.8)	-	(6.8)
Transactions in own shares	-	-	-	-	-	(6.1)	4.9	(1.2)
At 30 April 2020	**2.8**	**306.2**	**12.9**	**1.0**	**(15.7)**	**10.4**	**(2.9)**	**314.7**

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

Audited year to 31 October 2019

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

CONDENSED CONSOLIDATED BALANCE SHEET

as at 30 April 2020

	Note	**Unaudited As at 30 April 2020 £m**	Unaudited As at 30 April 2019 £m	Audited As at 31 Oct 2019 £m
Non-current assets				
Goodwill		**109.8**	108.1	108.5
Development costs		**28.6**	24.6	26.1
Other intangible assets		**21.3**	31.3	25.3
Property, plant and equipment		**186.5**	160.5	170.0
Deferred tax		**19.8**	17.6	18.5
Retirement benefit surplus	10	**4.8**	7.8	9.6
		370.8	349.9	358.0
Current assets				
Inventories		**91.1**	78.2	78.1
Trade and other receivables		**60.4**	60.0	53.7
Cash and cash equivalents	13	**104.2**	6.4	1.3
Derivative financial instruments	8	**0.4**	0.1	0.2
		256.1	144.7	133.3
Assets classified as held for sale		**10.4**	7.9	7.0
Total assets		**637.3**	502.5	498.3
Current liabilities				
Borrowings	13	**(49.7)**	(64.1)	(69.2)
Obligations under finance leases	13	**(1.6)**	-	-
Trade and other payables		**(106.8)**	(77.3)	(68.3)
Provisions		**(4.9)**	(5.1)	(4.8)
Current tax		**(5.6)**	(4.7)	(4.0)
Derivative financial instruments	8	**(2.4)**	(0.4)	(0.9)
		(171.0)	(151.6)	(147.2)
Liabilities directly associated with assets classified as held for sale		**(2.8)**	(7.1)	(1.8)
Non-current liabilities				
Borrowings	13	**(108.8)**	(26.2)	(7.7)
Obligations under finance leases	13	**(4.6)**	-	-
Provisions		**(11.0)**	(12.6)	(12.4)
Deferred tax		**(24.3)**	(21.7)	(23.0)
Preference shares	13	**(0.1)**	(0.1)	(0.1)
Derivative financial instruments		**-**	(0.2)	(0.3)
		(148.8)	(60.8)	(43.5)
Total liabilities		**(322.6)**	(219.5)	(192.5)
Net assets		**314.7**	283.0	305.8
Equity				
Share capital		**2.8**	2.8	2.8
Share premium account		**306.2**	305.5	306.2
Special capital reserve		**12.9**	12.9	12.9
Revaluation reserve		**1.0**	1.0	1.0
Translation reserve		**(15.7)**	(30.9)	(17.8)
Retained earnings		**10.4**	(0.5)	8.5
		317.6	290.8	313.6
Own shares		**(2.9)**	(7.8)	(7.8)
Total equity		**314.7**	283.0	305.8

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the half year to 30 April 2020

	Note	**Unaudited Half year to 30 April 2020 £m**	Unaudited Half year to 30 April 2019 £m	Audited Year to 31 Oct 2019 £m
Cash flows from operating activities				
Cash generated from continuing underlying operations	12	**56.2**	21.9	63.9
Cash impact of continuing non-underlying items		**(2.2)**	(2.8)	(5.3)
Cash impact of discontinued underlying operations	12	**(0.4)**	9.4	13.7
Cash impact of discontinued non-underlying items	12	**(0.6)**	(0.2)	(7.1)
Cash flows from operating activities		**53.0**	28.3	65.2
Retirement benefit deficit recovery contributions		**-**	(0.4)	(0.4)
Tax paid		**(0.3)**	(2.2)	(2.9)
Net cash inflow from operating activities		**52.7**	25.7	61.9
Cash flows from investing activities				
Purchases of intangible assets		**(2.6)**	(1.7)	(3.8)
Purchases of property, plant and equipment		**(17.3)**	(19.9)	(41.0)
Customer funding for capital programmes		**-**	-	2.4
Proceeds on disposal of subsidiary		**0.8**	0.6	0.7
Net cash outflow from investing activities		**(19.1)**	(21.0)	(41.7)
Cash flows from financing activities				
Dividends paid	7	**(6.8)**	(6.2)	(9.5)
Purchase of own shares		**(0.3)**	-	-
Finance expense paid		**(2.3)**	(1.6)	(4.9)
Capitalised facility fees paid		**-**	(0.3)	(0.3)
Drawdown of borrowings		**157.6**	5.0	-
Repayments of borrowings		**(73.1)**	(4.5)	(18.1)
Repayment of finance leases		**(0.8)**	-	-
Net cash inflow/(outflow) from financing activities		**74.3**	(7.6)	(32.8)
Increase/(decrease) in cash and cash equivalents		**107.9**	(2.9)	(12.6)
Cash and cash equivalents at beginning of period/year		**(3.3)**	9.6	9.6
Effect of foreign exchange rate changes		**(0.4)**	(0.3)	(0.3)
Cash and cash equivalents at end of period/year (including bank overdraft)		**104.2**	6.4	(3.3)

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 3 June 2020. The information for the year ended 31 October 2019 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. Full accounts for the year ended 31 October 2019, 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 the Group's working capital and financing position, the Directors have prepared a detailed bottom-up two-year trading budget and cash flow forecast for the period through to October 2021, being at least twelve months after the date of approval of the financial statements. This is in addition to the Group's longer-term strategic planning process. In assessing the forecast, the Directors have considered:

- trading risks presented by the current economic conditions in the defence market, particularly in relation to government budgets and expenditure;
- 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;
- the availability of 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.

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

In addition to the above, the Directors continue to monitor developments with, and potential impact of, CV-19 in the short and medium term and are in particular focussed on the key risks of delays by customers in testing and acceptance of products, disruption to production capacity and efficiency as a result of Government legislation on social distancing measures and the impact of the current situation on the Group's supply chain. In April 2020 the Group obtained an additional short-term £100m facility of which £50m has been drawn, to further strengthen the Group's liquidity position. The Directors have modelled a severe but plausible downside scenario for CV-19, whereby the Group experiences a 25% reduction in production capacity for a six month period. Throughout this severe but plausible downside scenario, the Group continues to have significant liquidity headroom on existing facilities and against the RCF financial covenants. The CV-19 outbreak is not currently having any material impact in relation to these risks or any other potential impacts, however, the Directors are monitoring the situation closely.

After consideration of the above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the 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;
- 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 2019 except in respect of the adoption of IFRS16 as described below. In addition, there have been no significant changes in accounting judgements or key sources of estimation uncertainty as disclosed in the consolidated financial statements for the year ended 31 October 2019.

Recent accounting developments
The following International Financial Reporting Committee ("IFRIC") interpretations, amendments to existing standards and new standards were adopted in the period ending 30 April 2020 but have not materially impacted the reported results or the financial position:

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

In the period to 30 April 2020, the following standard was adopted and has affected the amounts reported in this half-yearly financial report:

- IFRS 16 *Leases* (effective for periods on or after 1 January 2019).

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

The Group has adopted IFRS 16 using the modified retrospective transition approach, which does not require the restatement of comparative figures. Adoption of IFRS 16 resulted in right of use assets and lease liabilities of £6.5m being recognised on the balance sheet. The weighted average incremental borrowing rate applied to lease liabilities at the date of initial application was 3%. The difference between the lease liability recognised on transition and the operating lease commitments disclosed under IAS 17 at 31 October 2019, discounted using the incremental borrowing rate at the date of initial application is due to the exclusion of leases relating to low value assets.

The right of use asset is included within property, plant and equipment on the balance sheet. At 30 April 2020, the right of use assets were £5.8m.

Within continuing operations during the period, lease interest of £0.1m has been recognised within finance costs and £0.8m of depreciation has been charged to the income statement. In total, payments of £0.9m were made under leasing contracts, of which £0.8m was made to repay the principal portion of the lease. Additionally, administrative expenses include £0.3m in respect of variable lease payments for short term and low value leases which are not included in the lease liabilities and payments disclosed above.

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

- the exclusion of leases relating to low-value assets (less than £50,000 when new);
- the exclusion of short-term leases, being those with a lease term of 12 months or less; and
- applying the new definition of a lease only to contracts entered into after the transition date.

2. SEGMENTAL ANALYSIS

Period to 30 April 2020 (unaudited)

	Sensors & Information	Countermeasures & Energetics	Unallocated	Group
	£m	**£m**	**£m**	**£m**
Revenue	**67.3**	**123.7**	**-**	**191.0**
Segment result before depreciation, amortisation and non-underlying items	**15.1**	**25.4**	**(5.3)**	**35.2**
Depreciation	**(1.5)**	**(7.3)**	**-**	**(8.8)**
Amortisation	**(0.3)**	**(0.5)**	**-**	**(0.8)**
Segmental underlying operating profit	**13.3**	**17.6**	**(5.3)**	**25.6**
Amortisation of acquired intangibles	**(3.2)**	**(1.2)**	**-**	**(4.4)**
Non-underlying items: mark-to-market foreign exchange loss	**-**	**-**	**(0.8)**	**(0.8)**
Segmental operating profit	**10.1**	**16.4**	**(6.1)**	**20.4**

Period to 30 April 2019 (unaudited)

	Sensors & Information	Countermeasures & Energetics	Unallocated	Group
	£m	£m	£m	£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

Year ended 31 October 2019 (audited)

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

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 2020 £m	Unaudited period to 30 April 2019 £m	Audited year ended 31 October 2019 £m
Loss on the movement in the fair value of derivative financial instruments	**(0.8)**	-	(0.6)
Impact of non-underlying items on EBITDA	**(0.8)**	-	(0.6)
Intangible amortisation arising from business combinations	**(4.4)**	(5.6)	(12.1)
Impact of non-underlying items on operating profit and profit before tax	**(5.2)**	(5.6)	(12.7)
Tax impact of non-underlying items	**1.6**	1.2	4.3
Impact of non-underlying items on continuing profit after tax	**(3.6)**	(4.4)	(8.4)
Discontinued operations after tax	**(0.1)**	(4.9)	(3.9)
Impact of non-underlying items on profit after tax	**(3.7)**	(9.3)	(12.3)

Derivative financial instruments

Included in non-underlying items is a £0.8m loss (H1 2019: £nil, 2019: £0.6m loss) on the movement in fair value of derivative financial instruments. This is excluded from underlying earnings to ensure the recognition of the gain or loss on the derivative matches the timing of the underlying transaction.

Amortisation of acquired intangibles

Included in non-underlying items is the amortisation charge arising from business combinations of £4.4m (H1 2019: £5.6m, 2019: £12.1m). Amortisation of acquired intangibles arising from business combinations is associated with acquisition costs under IFRS 3 *Business Combinations*. IFRS requires intangibles to be recognised on acquisition that would not have been capitalised had the business grown organically under Chemring's ownership. As such, these costs are not reflective of the underlying costs of the Group and therefore, in order to provide an explanation of results that is not distorted by the history of business units being acquired rather than organically developed, have been excluded from the underlying measures.

Tax

In the period to 30 April 2020, the tax impact of continuing non-underlying items comprises a £1.6m tax credit (H1 2019: £1.2m credit, 2019: £4.3m credit) on the above non-underlying items.

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 normally 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 2020 £m	Unaudited period to 30 April 2019 £m	Audited year ended 31 October 2019 £m
Underlying tax charge	**(4.3)**	(2.0)	(7.9)
Tax impact of non-underlying items	**1.6**	1.2	4.3
Total statutory tax charge	**(2.7)**	(0.8)	(3.6)

The continuing statutory tax charge totalled £2.7m (H1 2019: £0.8m, 2019: £3.6m) on a continuing statutory profit before tax of £19.0m (H1 2019: £4.3m, 2019: £26.7m).

The effective tax rate on underlying profit before tax for the period is a charge of 17.8% (H1 2019: 20.2%, 2019: 20.1%) which is in line with the estimated effective tax rate on underlying profit before tax expected for the full year. This is lower than the 2019 effective tax rate due to prior year tax adjustments.

6. EARNINGS PER SHARE

Earnings per share are based on the average number of shares in issue, excluding own shares held, of 280,966,749 (H1 2019: 279,999,500, 2019: 280,061,053). Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 288,374,089 (H1 2019: 284,800,433, 2019: 286,092,818).

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

			Unaudited Half year to 30 April 2020			Unaudited Half year to 30 April 2019
	£m	**Basic EPS (pence)**	**Diluted EPS (pence)**	£m	Basic EPS (pence)	Diluted EPS (pence)
Underlying profit after tax	**19.9**	**7.1**	**6.9**	7.9	2.8	2.7
Non-underlying items	**(3.6)**			(4.4)		
Profit from continuing operations	**16.3**	**5.8**	**5.7**	3.5	1.3	1.2
Loss from discontinued operations	**(0.2)**	**(0.1)**	**(0.1)**	(3.9)	(1.4)	(1.3)
Total profit /(loss) after tax	**16.1**	**5.7**	**5.6**	(0.4)	(0.1)	(0.1)

			Audited year to 31 October 2019
	£m	Basic EPS (pence)	Diluted EPS (pence)
Underlying profit after tax	31.5	11.2	11.0
Non-underlying items	(8.4)		
Profit from continuing operations	23.1	8.2	8.1
Loss from discontinued operations	(1.2)	(0.4)	(0.4)
Total profit after tax	21.9	7.8	7.7

7. DIVIDENDS

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

The Board also declared an interim dividend in respect of 2020 of 1.3p per ordinary share which will be paid on 11 September 2020 to shareholders on the register on 21 August 2020. In accordance with accounting standards this dividend has not been recorded as a liability as at 30 April 2020.

8. FINANCIAL INSTRUMENTS

As at 30 April 2020, 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 2020, the total fair value of forward foreign exchange contracts recognised in the condensed consolidated balance sheet were an asset of £0.4m (H1 2019: £0.1m, 2019: £0.2m), a current liability of £2.4m (H1 2019: £0.4m, 2019: £0.9m), and a non-current liability of £nil (H1 2019: £0.2m, 2019: £0.3m).

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 2020 £m	Unaudited Half year to 30 April 2019 £m	Audited Year to 31 Oct 2019 £m
Revenue	**8.5**	32.2	43.4
Underlying operating loss from discontinued operations	**(0.1)**	(2.0)	(3.5)
Tax on underlying operating loss from discontinued operations	**-**	3.0	6.2
(Loss)/profit after tax from underlying discontinued operations	**(0.1)**	1.0	2.7
(Loss)/profit after tax is analysed as:			
Before exceptional items	**(0.1)**	1.0	2.7
Exceptional items	**(0.1)**	(4.9)	(3.8)
Tax on exceptional items	**-**	-	(0.1)
	(0.1)	(4.9)	(3.9)
Loss from discontinued operations	**(0.2)**	(3.9)	(1.2)

In the period to 30 April 2020, the loss related to the continued trading activity of Chemring Ordnance, Inc. On 21 November 2019, the Group announced that a conditional agreement had been entered into for the sale of its US subsidiary Chemring Ordnance, Inc. to Nammo Defense Systems Inc. On 7 May 2020 the sale was completed, concluding the Group's exit from its commoditised energetics businesses. The consideration of $17m was paid in cash on completion, subject to normal working capital and other closing adjustments. Chemring Ordnance, Inc. was treated as discontinued and held for sale in these financial statements.

In the period to 30 April 2019 the exceptional items included an impairment loss of £3.1m in respect of the carrying value of Chemring Defence UK Limited and a loss of £1.8m on disposal relating to the sale of Chemring Military Products, Inc.

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

10. RETIREMENT BENEFIT SURPLUS

The defined benefit surplus is calculated using an actuarial valuation as at 30 April 2020. In the period to 30 April 2020, the retirement benefit surplus reduced to £4.8m (H1 2019: £7.8m, 2019: £9.6m), principally as a result of a fall in the value of the scheme's equity portfolio following the CV-19 impact on global equity markets.

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 2020 £m	Unaudited Half year to 30 April 2019 £m	Audited Year to 31 Oct 2019 £m
Operating profit from continuing operations	**20.4**	6.5	31.3
Amortisation of development costs	**0.7**	0.5	1.3
Amortisation of intangible assets arising from business combinations	**4.4**	5.6	12.1
Amortisation of patents and licenses	**0.1**	0.1	0.1
Loss on disposal of non-current assets	**-**	0.6	0.7
Depreciation of property, plant and equipment	**8.8**	7.6	15.8
Non-cash movement of non-underlying items	**0.8**	0.1	0.6
Share-based payment expense	**2.0**	0.2	2.5
Operating cash flows before movements in working capital	**37.2**	21.2	64.4
(Increase) in inventories	**(11.8)**	(8.3)	(7.9)
(Increase)/decrease in trade and other receivables	**(7.5)**	2.6	10.4
Increase/(decrease) in trade and other payables	**38.4**	6.4	(2.7)
(Decrease) in provisions	**(0.1)**	-	(0.3)
Operating cash flow from continuing underlying operations	**56.2**	21.9	63.9
Discontinued operations			
Operating cash flow from discontinued underlying operations	**(0.4)**	9.4	13.7
Cash impact of non-underlying items from discontinued operations	**(0.6)**	(0.2)	(7.1)
Tax paid	**-**	-	(0.7)
Net cash (outflow)/inflow from discontinued operating activities	**(1.0)**	9.2	5.9
Net cash inflow from discontinued investing activities	**0.3**	0.6	0.5
Net cash (outflow)/inflow from discontinued operations	**(0.7)**	9.8	6.4

13. ANALYSIS OF NET DEBT

	As at 1 Nov 2019 £m	Adoption of IFRS 16 *Leases* £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	**As at 30 April 2020 £m**
Cash and cash equivalents	(3.3)	-	107.9	-	(0.4)	**104.2**
Debt due within one year	(64.6)	-	14.9	-	-	**(49.7)**
Debt due after one year	(7.7)	-	(99.5)	(0.1)	(1.5)	**(108.8)**
Finance Leases	-	(6.5)	0.8	(0.1)	(0.4)	**(6.2)**
Preference shares	(0.1)	-	-	-	-	**(0.1)**
	(75.7)	(6.5)	24.1	(0.2)	(2.3)	**(60.6)**

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

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

In April 2020, the Group obtained an additional short-term facility of £100m to further strengthen its available liquidity and financial position.

The Group had £83.6m (H1 2019: £117.3m, 2019: £130.2m) 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 net debt; and the interest cover ratio between underlying EBITDA and finance costs. The calculation of these ratios involves the translation of non-Sterling denominated debt using average, rather than closing, rates of exchange. The Group was in compliance with the covenants throughout the period.

14. EXCHANGE RATES

The following exchange rates applied during the period:

	Average rate H1 2020	**Closing rate H1 2020**	Average rate H1 2019	Closing rate H1 2019	Average rate 2019	Closing rate 2019
AU Dollar	**2.06**	**1.93**	1.80	1.85	1.82	1.88
US Dollar	**1.28**	**1.26**	1.30	1.30	1.26	1.29

The translation of foreign currency items in the financial statements are dependent on the prevailing foreign exchange rates. For the period ended 30 April 2020, a 10 cent increase in the US dollar exchange rate would have decreased reported underlying operating profit for the first half of 2020 by approximately £1.5m and decreased reported net debt at 30 April 2020 by approximately £4.1m.

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. In April 2020, the ASBCA issued a judgement in favour of Alloy Surfaces Company, Inc. however the US Army has 120 days to appeal and therefore the risk remains as at the half year. The range of possible outcomes is between £nil to £12.0m. A provision of £1.0m (H1 2019: £1.1m, 2019: £1.0m) exists to cover estimated legal costs for the Group with regards to this issue.

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

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

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

16. EVENTS AFTER THE BALANCE SHEET DATE

As announced on 7 May 2020, Chemring sold its US subsidiary Chemring Ordnance, Inc. ("COR") after the period end, completing the Group's exit from its commoditised energetics businesses. The consideration of $17m was paid in cash on completion, subject to normal working capital and other closing adjustments. Chemring Ordnance, Inc. was treated as discontinued and held for sale in these financial statements.

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 2019 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 30 to 36 of the 2019 Annual Report and Accounts. These risks can be summarised as:

- occupational and process safety risks;
- health and security risks;
- environmental laws and regulations;
- market-related risks;
- political risks;
- contract-related risks;
- technology risks;
- Brexit;
- financial risks;
- operational risks;
- people risks;
- compliance and corruption risks;
- product liability and other customer claims; and
- cyber-related risks.

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

In addition, the Group is closely monitoring the CV-19 pandemic and taking steps to follow relevant Government guidance to mitigate any potential impacts to the health and safety of employees. We are reviewing the impact on customers and suppliers, reducing discretionary costs and conserving cash.

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 2020 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 2020 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

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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3 June 2020