

03 JUNE 2021

**CHEMRING GROUP PLC**

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

**INTERIM RESULTS FOR THE SIX MONTHS TO 30 APRIL 2021**

	As reported		At H1 2020 exchange rates		H1 2020
	H1 2021	Change	H1 2021	Change	
Revenue (£m)	<b>198.5</b>	<b>+4%</b>	206.3	+8%	191.0
Underlying EBITDA* (£m)	<b>37.6</b>	<b>+7%</b>	39.5	+12%	35.2
Underlying operating profit* (£m)	<b>28.1</b>	<b>+10%</b>	29.6	+16%	25.6
Underlying profit before tax* (£m)	<b>27.2</b>	<b>+12%</b>	28.7	+19%	24.2
Underlying basic earnings per share* (pence)	<b>8.5</b>	<b>+20%</b>	9.0	+27%	7.1
Statutory operating profit (£m)	<b>25.2</b>	<b>+24%</b>			20.4
Interim dividend per share (pence)	<b>1.6</b>	<b>+23%</b>			1.3
Net debt at 30 April (£m)	<b>38.7</b>	<b>-36%</b>	42.3	-30%	60.6

**Highlights**

- H1 performance was in line with our expectations reflecting continued strong performance in both segments, despite FX translation headwind caused by the weakening US dollar.
- Investment in the Group's manufacturing infrastructure continues to be a key enabler to deliver improved safety performance and operational excellence. Total Recordable Injury Frequency Rate is at 0.66 versus 1.13 for the same period last year.
- Double digit growth in orders, revenue and operating profit for Roke as the market continues to be buoyant, underpinned by UK Government announced increased focus on Cyber and Electromagnetic Activities ("CEMA"), digital infrastructure, and science and technology.
- Acquisition of Cubica Group (see separate announcement published today)
- Continued progress in our US Sensors Programs of Record. Further orders received in the period for the next phase of HMDS delivery, valued at \$63m, under the previously announced \$200m IDIQ contract.
- Secured new long-term contracts in Countermeasures & Energetics, including Chemring Countermeasures USA receiving a five-year IDIQ contract for the supply of infra-red decoy flares and Chemring Energetics UK securing a 15 year long-term partnering agreement with Martin Baker Aircraft Company.
- Continued reduction in net debt with strong operational cash generation partially offset by scheduled capital expenditure. Net debt to underlying EBITDA of 0.5 times.
- New policy to target a medium-term dividend cover of c.2.5 times underlying EPS. Interim dividend increased by 23% to 1.6p.
- Board's full year expectations are unchanged (at current FX rates). Approximately 92% of expected H2 revenue is in the order book as at 30 April 2021.

**Michael Ord, Chemring Group Chief Executive, commented:**

“Chemring’s positive first half performance again demonstrates the progress that we continue to make in building a higher quality technology-based Group. With strong order cover for the full year the Group remains on track to deliver year on year growth, and the Board’s expectations for the full year remain unchanged.

Whilst our modernisation and operational excellence programmes will continue, our focus is now shifting towards the growth of our Sensors & Information segment, where our market leading positions and investment in high technology niches positions us well in this area of growing customer requirement. We are investing in our organic capabilities, both in the development of our technology and people. In addition we now have the financial flexibility to pursue both organic and inorganic growth opportunities.

The acquisition of Cubica Group is a small but important first step in driving further scale to our growing Roke business, and is further evidence of Chemring delivering against its strategy.

Whilst there may be some macro-economic uncertainty surrounding the level and timing of defence spending as a result of the Covid-19 pandemic, our multiple market leading positions and investment in high technology niches, provide attractive growth opportunities. Chemring’s long-term prospects remain strong.”

**Notes:**

\* All profit and earnings per share figures in this news release relate to continuing 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.

EBITDA is defined as operating profit before interest, tax, depreciation and amortisation. Reference to constant currency relates to the re-translation of H1 2021 financial information at the H1 2020 exchange rates to reflect the movement excluding the impact of foreign exchange. The exchange rates applied are disclosed in note 12.

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

<b>Group – continuing operations:</b>	<b>Underlying</b>	<b>Non-underlying</b>	<b>Statutory</b>
EBITDA (£m)	37.6	0.8	38.4
Operating profit (£m)	28.1	(2.9)	25.2
Profit before taxation (£m)	27.2	(2.9)	24.3
Tax charge (£m)	(3.3)	0.4	(2.9)
Profit after tax (£m)	23.9	(2.5)	21.4
Basic earnings per share (pence)	8.5	(0.9)	7.6
Diluted earnings per share (pence)	8.3	(0.9)	7.4
<b>Segments – continuing operations:</b>			
Sensors & Information EBITDA (£m)	16.6	-	16.6
Sensors & Information operating profit (£m)	15.3	(2.6)	12.7
Countermeasures & Energetics EBITDA (£m)	27.5	-	27.5
Countermeasures & Energetics operating profit (£m)	19.3	(1.1)	18.2

The adjustments to continuing operations comprise:

- amortisation of acquired intangibles of £3.7m (H1 2020: £4.4m, 2020: £8.9m)
- gain on the movement in the fair value of derivative financial instruments of £0.8m (H1 2020: £0.8m loss, 2020: £0.5m gain)
- tax impact of adjustments of £0.4m credit (H1 2020: £1.6m credit, 2020: £0.5m credit)

Further details are provided in note 3.

#### **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 2,300 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](http://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](http://www.chemring.co.uk/investors/results-centre) at 07.00 (UK time) on Thursday 3 June 2021.

## Analyst call

An analyst call will take place at 08.30 (UK time) on Thursday 3 June 2021. To receive dial in details please contact MHP Communications: [chemringplc@mhpc.com](mailto:chemringplc@mhpc.com) / tel: +44 (0) 20 3128 8841.

## Photography

Original high resolution photography is available to the media by contacting Catherine Chapman, MHP Communications: [catherine.chapman@mhpc.com](mailto:catherine.chapman@mhpc.com) / tel: +44 (0) 20 3128 8339.

## INTERIM MANAGEMENT REPORT

### Group overview

The Group has recorded a good first half performance. Revenue was up 4% to £198.5m (H1 2020: £191.0m, 2020: £402.5m) and underlying operating profit was up 10% to £28.1m (H1 2020: £25.6m, 2020: £54.7m). Underlying earnings per share was up 20% to 8.5p (H1 2020: 7.1p, 2020: 15.1p). The Board's expectations for the full year remain unchanged (at current foreign exchange rates).

The US dollar has weakened in the period with the average exchange rate to GBP increasing from 1.28 to 1.39, resulting in significant headwind. In the first half, 54% of the Group's revenue was US dollar denominated (H1 2020: 48%, 2020: 54%), the increase in weighting being attributable to the ramp up of the supply of countermeasures for the F-35 Lightning II ("F-35") programme. On a constant currency basis the Group's revenue was up 8% to £206.3m, underlying operating profit was up 16% to £29.6m and underlying earnings per share was up 27% to 9.0p. A summary of the impact of the exchange rate movements on the key metrics at a Group and segmental level is shown in the table below.

	At constant currency		As reported		
	H1 2021	Change	H1 2021	Change	H1 2020
	£m		£m		£m
<i>Group</i>					
Revenue	206.3	+8%	198.5	+4%	191.0
Underlying EBITDA	39.5	+12%	37.6	+7%	35.2
Underlying operating profit	29.6	+16%	28.1	+10%	25.6
<i>Sensors &amp; Information</i>					
Revenue	77.1	+15%	74.4	+11%	67.3
Underlying EBITDA	17.3	+15%	16.6	+10%	15.1
Underlying operating profit	15.8	+19%	15.3	+15%	13.3
<i>Countermeasures &amp; Energetics</i>					
Revenue	129.2	+4%	124.1	-%	123.7
Underlying EBITDA	28.9	+14%	27.5	+8%	25.4
Underlying operating profit	20.5	+16%	19.3	+10%	17.6

In the Sensors & Information segment, Roke has again recorded double digit growth in orders, revenue and operating profit, with the market continuing to be buoyant. In addition, there has been continued progress on the US Sensors Programs of Record with further delivery orders received for the next phase of the Husky Mounted Detection System ("HMDS") Indefinite Delivery / Indefinite Quantity ("IDIQ") contract, valued at \$63m, under the \$200m IDIQ contract announced in September 2020.

In Countermeasures & Energetics, good progress was made on securing new long-term contracts, including Chemring Countermeasures USA receiving a five-year IDIQ contract for the supply of infra-red decoy flares and Chemring Energetics UK securing a 15 year long-term partnering agreement with Martin Baker Aircraft Company. The capital investment programmes are progressing as planned.

Net debt was £38.7m at the end of the period (H1 2020: £60.6m, 2020: £48.2m). The high level of capital expenditure has been funded by continued strong operational cash generation. Underlying operating cash inflow of £36.1m (H1 2020: £56.2m, 2020: £82.4m) represented 96% (H1 2020: 160%, 2020: 110%) of underlying EBITDA. Our two year rolling average cash conversion has been 105% (H1 2020: 117%, 2020: 108%), showing the ongoing focus on working capital improvements is delivering long-term, sustainable positive results.

The Group's order book at 30 April 2021 was £450m (H1 2020: £504m, 2020: £476m), of which approximately £199m is scheduled for delivery during H2 2021. This represents cover of approximately 92% of expected H2 revenue. The decrease versus the 2020 year end closing order book is partly attributable to foreign exchange; on a constant currency basis using the 2020 closing exchange rates the order book would be £464m. The remaining decrease is largely attributable to the delivery of a substantial part of the \$107m F-35 two-year countermeasures contract by our Australian business.

This leaves £251m of order book to be delivered in FY22 and beyond. At this stage, this provides approximately 50% cover of expected FY22 Countermeasures & Energetics revenue and 30% cover of expected FY22 Sensors & Information revenue, with approximately £70m then to be delivered in FY23.

## **Markets**

With negligible exposure to commercial aerospace markets, Chemring is not experiencing significant adverse impacts from Covid-19 ("CV-19"). Global defence and national security spending is projected to be robust given continued geopolitical tensions and customers investing to increase their resilience against a broad spectrum of conventional and sub-threshold ("Grey Zone") threats. With this context, solid demand for the Group's differentiated and niche capabilities continues to be expected across its principal markets.

The US remains the largest defence and security market in the world, and continues to be the biggest market opportunity for the Sensors & Information segment. The US\$715bn FY22 President's Budget Request for the US Department of Defense ("US DoD") identifies a need to modernise information and cyber security systems, has a focus on research and development ("R&D") for new technologies, and specifically highlights the need to counter emerging biological threats. For this latter priority threat reduction, infectious disease surveillance, biosecurity, and medical countermeasure R&D will be critical and Chemring's capabilities make us well placed to benefit from these emerging requirements.

Our strategy for Energetics remains to focus on the high value differentiated areas of the market where market demand is most robust. Our Chicago facility is anticipated to benefit from growth in the space segment.

In the UK, the Integrated Review, Defence Command Paper, and Defence and Security Industrial Strategy were published in March 2021. These documents provide a comprehensive view of the threats and challenges that the UK faces, and collectively aggregate to produce a resilience-based policy framework that fuses defence and security drivers with prosperity drivers.

The Group's capabilities are well aligned to the UK's priorities for modernising and defeating the threats and challenges identified therein. The clear emphasis placed on cyber security, active cyber effects, secure networks, secret cloud, artificial intelligence, data science and autonomy validate our Sensors & Information segment strategy, and should increase the opportunity space for Roke to deploy its market leading technologies.

The increased investment for developing UK Electronic Warfare ("EW") capability also generates opportunity for the Group and the general greater convergence between EW and Cyber is consistent with our Sensors & Information strategy.

For the Countermeasures & Energetics segment the documents also contain a commitment for the UK to expand its number of F-35 aircraft beyond the 48 already ordered. As a provider of countermeasures for this platform Chemring is well positioned to benefit from this increase which will contribute to us maintaining our market leading position in the addressable air countermeasures market.

## **Environmental, Social and Governance**

At Chemring we acknowledge our responsibility to contribute to a sustainable future. We have a strong and recognised obligation to ensure the responsible operation of our business and are fully committed to being a socially and environmentally responsible business.

During the first half of FY21 we have built on the progress made during FY20 as we manage our sustainability agenda, and in particular our environmental, social and governance (“ESG”) related risks.

A core activity has been to continue the process of building and validating data in order to set appropriate near and medium-term targets. This has been coupled with an assessment to identify significant topics for our employees, customers, suppliers and investors, and to identify those areas and activities where our actions can have greatest impact. Key focus areas include Health & Safety, diversity and inclusion, reducing climate change, and employee wellbeing. Our goal is to be able to announce these targets in our FY21 annual report and accounts, so that as we enter FY22 our strategy and intent is clearly understood.

### **Health, safety and environment**

Safety is one of the core values within Chemring. A key part of our Health, Safety & Environmental (“HSE”) strategy is the collation and analysis of data at every level to focus on the underlying causes of incidents. This will facilitate appropriate decision making at all levels of our organisation.

Through the use of enhanced risk assessment techniques, supported by the roll out of a common asset integrity programme, we will focus on the control of residual risks within our high hazard processes.

In addition, we are extending our current data platform to better assess the environmental impact of our operations and the targets we need to set in support of our wider ESG commitment. Whilst working towards creating a more calculative culture we are also keen to ensure that we understand and learn more from any incident. To date good progress has been made on our journey to become a high reliability organisation.

**Health** – 2021 has seen a continued focus on CV-19 with the Crisis Management Team meeting regularly to monitor the situation. To ensure we adhere to the required in-country standards, Chemring has remained agile in its response through the implementation of its CV-19 playbook. Throughout the pandemic we have had over 1,700 colleagues attending our sites daily and working under social distancing and CV-19 protocols to protect them. Chemring continues to work to Government guidelines.

**Safety** – The successful implementation of our HSE strategy continues, as does our focus of achieving zero harm. Our safety performance in terms of recordable injury rates (Total Recordable Injury Frequency Rate) at 0.66 versus 1.13 shows a 42% decrease on the same period last year. The nature of most injuries were either slips, trips and falls, or muscular skeletal type of events.

**Cultural Change** – Safety and our goal of zero harm remains one of our core values which will be achieved through establishing and embedding a culture of high reliability. So far this year we have focused on the steps required to ensure we become a more learning organisation through shared and embedded learning associated with the control and interaction of people, plant and process.

## Financial performance and position

### Group financial performance

Against a strong comparator period in which our Australian business received a \$107m multi-year undefinitised contract for the supply of countermeasures for the F-35, order intake for H1 2021 was down 24% to £190m (H1 2020: £250m, 2020: £437m). Excluding the impact of this, order intake across the Group has remained robust, with the release of further delivery orders on the HMDS IDIQ contract as well as orders awarded to the US countermeasures businesses. Following the change of administration in the US, Brexit in the UK and the continuation of CV-19 working restrictions, the process of doing business with government departments has, on some occasions, slowed and as a result some Countermeasures & Energetics orders expected late in the first half have been delayed. Given the level of order book coverage of second half revenue, this is not expected to impact FY21 results.

Revenue for the period was up 4% to £198.5m (H1 2020: £191.0m, 2020: £402.5m), driven by strong performance in the Sensors & Information segment. As expected, we continued to see growth in Countermeasures & Energetics revenue, however this was offset by a foreign currency headwind. While the CV-19 pandemic does present a risk to short-term deliveries due to customer testing and acceptance procedures, there was no material evidence of this during the first half.

The underlying operating profit of £28.1m (H1 2020: £25.6m, 2020 £54.7m) resulted in an underlying operating margin of 14.2% (H1 2020: 13.4%, 2020: 13.6%). The improved margin compared to H1 2020 primarily reflects the growth of the higher margin Sensors & Information segment and the continued focus on improved operational execution throughout the Group.

Foreign exchange translation has provided a headwind to operating profit versus the same period last year. While exchange rates have been volatile in the period, there has been a weakening of the US dollar against Sterling compared to the equivalent period in 2020 with the average rate moving from \$1.28 to \$1.39. On a constant currency basis, restating the current period at the H1 2020 average rate, revenue would have risen 8% to £206.3m and underlying operating profit would have risen 16% to £29.6m.

Total finance expense was lower at £0.9m (H1 2020: £1.4m, 2020: £3.0m). This was achieved by lower levels of net debt throughout the period and the continued focus on the efficient management of working capital.

Underlying profit before tax was £27.2m (H1 2020: £24.2m, 2020: £51.7m). The effective tax rate on the underlying profit before tax was 12.1% (H1 2020: 17.8%, 2020: 17.6%). The reduction in rate is due to the recognition of a deferred tax asset in respect of future US interest deductions. The underlying earnings per share was 8.5p (H1 2020: 7.1p, 2020: 15.1p).

Statutory operating profit was £25.2m (H1 2020: £20.4m, 2020: £46.3m) and after statutory finance expenses of £0.9m (H1 2020 £1.4m, 2020: £3.0m), statutory profit before tax was £24.3m (H1 2020: £19.0m, 2020: £43.3m) giving a statutory earnings per share of 7.6p (H1 2020: 5.8p, 2020: 12.3p). The statutory profit from discontinued operations was £nil (H1 2020: £0.2m loss, 2020: £nil) giving a statutory profit after tax of £21.4m (H1 2020: £16.1m, 2020: £34.7m) 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 2021 related to the amortisation of acquired intangibles and the tax credit associated with this as well as a gain on the movement in the fair value of derivative financial instruments.



## Segmental review - Sensors & Information

### *Performance*

Order intake in the period grew by 15% to £100m (H1 2020: £87m, 2020: £149m). 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 11% to £74.4m (H1 2020: £67.3m, 2020: £137.2m) and underlying operating profit increased by 15% to £15.3m (H1 2020: £13.3m, 2020: £27.4m), as underlying operating margin improved to 20.6% (H1 2020: 19.8%, 2020: 20.0%). 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 and manufacturing development ("EMD") and testing phases of the biological and chemical detection Programs of Record.

In the UK, the markets for EW, 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 orders, revenue and underlying operating profit and has maintained strong margins despite increased investment in people, infrastructure and product development. This includes the establishment of a Roke presence in the North West of England to align with customers establishing a hub for National Security in that area, and aligns with Roke's strategy to grow talent and develop new hubs across the UK.

On a constant currency basis order intake would have risen 21% to £105m, revenue would have risen 15% to £77.1m and underlying operating profit would have been up 19% to £15.8m.

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 \$63m were received in the period under the previously awarded \$200m IDIQ contract, providing visibility on this Program of Record well into FY22. The production phase is progressing 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 growing and upgrading its HMDS fleet. The new fleet will comprise both refurbished and new HMDS and this activity will run alongside technology upgrade programs.

The Joint Biological Tactical Detection System ("JBTDs") program is progressing as planned through the EMD phase and we 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 2020, we were pleased that the customer approved and awarded the contract modification for low rate initial production ("LRIP") and deliveries have been made in this period. The program is expected to be worth up to \$100m over 5-10 years once in full rate production, which is expected to commence in late FY21 or early FY22.

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 FY23. 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. The next customer procurement decision point is still expected to be at the conclusion of the EMD phase in FY22.

## *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 National Security, artificial intelligence and machine learning, tactical electronic warfare and information-security, and securing positions on the US DoD Programs of Record.

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

Roke continues to focus its efforts on growing across all its business areas in the UK, increasing in scale both organically and through potential bolt-on acquisitions. Roke is also increasingly focusing its efforts within the US market through the creation of Roke USA Inc.

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

In the US, HMDS program deliveries are on schedule with good medium-term visibility and the focus continues to be on ensuring that the Virginia and North Carolina facilities are mobilised and resourced to maximise Chemring's opportunity to convert current and potential chemical and biological detection Programs of Record. We will also invest in next generation product development and in modifying existing technologies to enable them to be deployed on a wider number of platforms including autonomous systems and UAVs.

The order book for Sensors & Information at 30 April 2021 increased since the year end to £109m (H1 2020: £97m, 2020: £87m). While the Roke business remains a short-cycle order book business, the segment has orders of approximately £59m for delivery in the second half of the year, representing 80% coverage of expected H2 revenue.

### **Acquisition of Cubica Group**

Separately Chemring has today announced the acquisition of Cubica Technology Limited ("Cubica") and Q6 Holdings Limited ("Q6") (collectively the "Cubica Group") (the "Acquisition"). The consideration will be satisfied by a payment in cash on completion, funded from Chemring's existing bank facilities, and a deferred consideration payable in Chemring 1p ordinary shares in two tranches on the second and third anniversary of completion. The Acquisition creates further opportunities for Chemring to enhance and further accelerate growth in its Roke business.

Cubica, based in Woking, Surrey, UK, is a research and development company specialising in artificial intelligence, machine learning, data fusion and autonomy. Principally supplying into the defence and security sectors, Cubica is a trusted supplier to the UK Government, Law Enforcement, and a number of international defence suppliers and private sector organisations. Many of their technologies have been developed and commissioned to detect criminal behaviour, protect assets and help save lives.

Q6 is the majority shareholder of Vigil AI Limited ("Vigil AI"), which has technology providing state-of-the-art solutions to enable online platforms to detect imagery relating to child sexual exploitation globally.

Since being founded in 2013, Cubica and its employees have developed world-first technologies including its support to building the award-winning Vigil AI technology and its team members have received customer and industry accolades for their research and data science work. They are recognised by the UK Government as leading innovators in their field of expertise. The current owners of Cubica and Q6 will remain in employment with Chemring following completion of the Acquisition.

The Acquisition creates further opportunities for Chemring to enhance and further accelerate growth in its Roke business. Roke's customers require an exponential increase in capability to achieve digital advantage against complex threats. Cubica's leading edge capability in Machine Augmented Intelligence and Autonomy complements Roke's existing capabilities in cyber security, intelligence and electronic warfare, offering customers a force multiplier for their missions. Roke plans to invest c£1m in Cubica and Vigil AI to support accelerated growth. This investment will be focused on research and development, infrastructure and security.

Based on unaudited accounts, in the twelve months to 31 March 2021, Cubica Group reported an adjusted profit before tax of £0.8m (2020: £0.4m) on revenue of £2.9m (2020: £1.8m). The gross assets of Cubica Group at 31 March 2021 were £3.1m (2020: £2.0m), and net assets at 31 March 2021 were £1.4m (2020: £0.8m).

## **Segmental review – Countermeasures & Energetics**

### *Performance*

Order intake in the period was lower at £90m (H1 2020: £163m, 2020: £288m), primarily driven by the strong comparator as our Australian business received multi-year orders for the supply of countermeasures for the F-35 under a 5 year IDIQ contract. The next order under this framework is expected in the second half of the year. Following the change of administration in the US, Brexit in the UK and the continuation of CV-19 working restrictions, the process of doing business with government departments has, on some occasions, slowed and as a result some Countermeasures & Energetics orders expected late in the first half have been delayed, which we now expect in the second half of FY21. Excluding the impact of these factors and the impact of the weaker US dollar, order intake was broadly flat, with Chemring Countermeasures USA receiving a five-year IDIQ contract for the supply of M206 and MJU-7A/B infra-red decoy flares and Chemring Energetics UK securing a 15 year long-term partnering agreement with Martin Baker Aircraft Company.

Revenue increased slightly to £124.1m (H1 2020: £123.7m, 2020: £265.3m). As expected, we continued to see growth in Countermeasures & Energetics revenue, however this was offset by a foreign currency headwind. The segment reported an underlying operating profit of £19.3m (H1 2020: £17.6m, 2020: £39.9m) as underlying operating margin improved to 15.6% (H1 2020: 14.2%, 2020: 15.0%) driven by improved operational execution, in particular at the UK countermeasures plant. On a constant currency basis revenue would have increased by 4% to £129.2m and operating profit would have been up 16% to £20.5m.

The investment in the expansion and automation of our Tennessee facility to meet the expected demand for F-35 countermeasures has continued during the period. Construction work of buildings has completed and the supply of complex manufacturing equipment to site continues, although, as previously announced, some has been delayed due to suppliers being impacted by CV-19. We still expect to generate revenue from the new facility during the second half of our 2022 financial year.

Our niche energetics devices businesses enjoyed another strong period driven by favourable market conditions and improving operational execution. The specialised and niche nature of our products was demonstrated in February when the Mars Perseverance Rover landed with 233 Chemring devices on board. These were designed, developed and manufactured at our Chicago facility and were all mission critical.

### *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.

We will continue the process of modernisation and automation across our sites, and in improving our competitiveness through investment in lean manufacturing capabilities. We will invest in new product development to ensure that our product portfolio remains highly relevant to our customers, and will continue the process of operational alignment to share technology and manufacturing excellence across the Group.

Countermeasures & Energetics' order book at 30 April 2021 was £341m (H1 2020: £407m, 2020: £389m). The decrease compared to the 2020 year end closing order book is partly attributable to foreign exchange; on a constant currency basis using the 2020 closing exchange rates the order book would be £351m. The remaining decrease is largely attributable to the delivery of a substantial part of the \$107m F-35 two-year countermeasures contract by our Australian business. Of the 30 April 2021 order book, approximately £140m is currently expected to be delivered in the second half of 2021, representing 98% coverage of expected H2 revenue.

### **Net debt and cash flow**

Net debt at 30 April 2021 was £38.7m (H1 2020: £60.6m, 2020: £48.2m). The weakening of the US dollar from \$1.29 as at 31 October 2020 to \$1.38 as at 30 April 2021 has resulted in a decrease in reported net debt of £2.9m, the remaining decrease being driven by the continued focus on operating cash conversion and the disciplined management of working capital.

Underlying operating activities generated cash of £36.1m (H1 2020: £56.2m, 2020: £82.4m). Cash conversion was 96% (H1 2020: 160%, 2020: 110%) of underlying EBITDA. Our two year rolling average cash conversion has been 105% (H1 2020: 117%, 2020: 108%), showing the ongoing focus on working capital improvements is delivering long-term, sustainable positive results.

### **Working capital**

Working capital was £83.3m (H1 2020: £70.6m, 2020: £85.1m), a decrease of £1.8m since year end. Working capital as a percentage of revenue remained consistent with the year-end level at 20% (2020: 21%). The reduced level of working capital at H1 2020 was mainly due to the timing differences created by the management actions taken in response to CV-19, which have not been repeated.

### **Debt facilities**

The Group has a £145m revolving credit facility with a syndicate of five banks that runs to October 2022, with an option to extend by two years at the banks' discretion. £105.2m (H1 2020: £83.6m, 2020: £86.4m) of this facility was undrawn at the half year.

### **Retirement benefit obligations**

The surplus on the Group's defined benefit pension scheme was £11.8m (H1 2020: £4.8m, 2020: £7.6m), 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 2021, using the projected unit credit method. This valuation showed a surplus of £11.8m (H1 2020: £4.8m, 2020: £7.6m). Despite the volatility in equity and bond markets throughout the period, the resilience of the Scheme's investment strategy has limited the impact on the Scheme's funding position and it maintains a surplus as at 30 April 2021.

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 and the trustees have 15 months to complete this, 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:

- 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 13.

### **Dividends**

At the Annual General Meeting on 4 March 2021 the shareholders approved a final dividend in respect of the year ended 31 October 2020 of 2.6p per ordinary share. This was paid on 23 April 2021 to shareholders on the register on 6 April 2021.

The Board continues to recognise that dividends are an important component of total shareholder returns. The Board's objective is for a growing and sustainable dividend and now it believes it is appropriate for the Group to target a medium-term dividend cover of c.2.5 times underlying EPS, subject inter alia to maintaining a strong financial position. Therefore, the Board has declared an interim dividend in respect of the 2021 financial year of 1.6p per ordinary share which will be paid on 10 September 2021 to shareholders on the register on 20 August 2021.

### **Medium-term financial objectives**

The Group has previously (December 2020) 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 low-single digit % growth driven by the US market, including F-35, potential for step changes in 2022 and 2023 as Tennessee facility generates first incremental revenue
- Operating margins - targeting mid to high teen return on sales % at a segmental level
- Capital expenditure - £40-50m per annum for 2021 and 2022 as investment in safety, automation and modernisation capex in the main manufacturing facilities and the capacity expansion project in Tennessee is completed. Expected to trend towards depreciation in FY23, having been elevated for four years
- In December 2020, the foreign exchange rate assumption for the US \$ was US\$1.30/£1. This has been updated to US\$ 1.40
- Short term blended tax rate percentage of mid to high teens, medium-term rate in the low 20's. This excludes potential changes in the US Federal tax rate which may be introduced by the Biden administration

## **Outlook**

With 92% of the expected H2 revenue in the order book as at 30 April 2021, the Board's full year expectations are unchanged (based on the current foreign exchange rates).

Whilst there may be some macro-economic uncertainty surrounding the level and timing of defence spending as a result of the CV-19 pandemic, our multiple market leading positions and investment in high technology niches provide attractive long-term growth opportunities.

Chemring is well placed, with a robust strategy, market leading positions across different geographies and segments, 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 any 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**  
**Group Chief Executive**  
**3 June 2021**

**Andrew Lewis**  
**Group Finance Director**  
**3 June 2021**

**CONDENSED CONSOLIDATED INCOME STATEMENT**  
for the half year to 30 April 2021

		Unaudited Half year to 30 April 2021			Unaudited 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
<b>Continuing operations</b>							
Revenue	2	198.5	-	198.5	191.0	-	191.0
Operating profit	2	28.1	(2.9)	25.2	25.6	(5.2)	20.4
Finance expense		(0.9)	-	(0.9)	(1.4)	-	(1.4)
<b>Profit before tax</b>		27.2	(2.9)	24.3	24.2	(5.2)	19.0
Tax charge on profit	5	(3.3)	0.4	(2.9)	(4.3)	1.6	(2.7)
<b>Profit after tax</b>		23.9	(2.5)	21.4	19.9	(3.6)	16.3
<b>Discontinued operations</b>							
Loss after tax		-	-	-	(0.1)	(0.1)	(0.2)
<b>Profit after tax for the period</b>		23.9	(2.5)	21.4	19.8	(3.7)	16.1
		Unaudited Half year to 30 April 2021			Unaudited Half year to 30 April 2020		
		Underlying performance	Total		Underlying performance	Total	
<b>Earnings per ordinary share</b>							
<b>Continuing operations</b>							
Basic	6	8.5p	7.6p		7.1p	5.8p	
Diluted	6	8.3p	7.4p		6.9p	5.7p	
<b>Continuing operations and discontinued operations</b>							
Basic	6	8.5p	7.6p		7.0p	5.7p	
Diluted	6	8.3p	7.4p		6.9p	5.6p	

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



**CONDENSED CONSOLIDATED INCOME STATEMENT (continued)**  
for the half year to 30 April 2021

				Audited Year to 31 Oct 2020
	Note	Underlying performance £m	Non- underlying items* £m	Total £m
<b>Continuing operations</b>				
Revenue	2	402.5	-	402.5
Operating profit	2	54.7	(8.4)	46.3
Finance expense		(3.0)	-	(3.0)
<b>Profit before tax</b>		51.7	(8.4)	43.3
Tax charge on profit	5	(9.1)	0.5	(8.6)
<b>Profit after tax</b>		42.6	(7.9)	34.7
<b>Discontinued operations</b>				
(Loss)/profit after tax		(0.1)	0.1	-
<b>Profit after tax for the year</b>		42.5	(7.8)	34.7

				Audited Year to 31 Oct 2020
		Underlying performance		Total
<b>Earnings per ordinary share</b>				
<b>Continuing operations</b>				
Basic	6	15.1p		12.3p
Diluted	6	14.8p		12.0p
<b>Continuing operations and discontinued operations</b>				
Basic	6	15.1p		12.3p
Diluted	6	14.7p		12.0p

\* 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 2021

	Unaudited Half year to 30 April 2021 £m	Unaudited Half year to 30 April 2020 £m	Audited Year to 31 Oct 2020 £m
<b>Profit after tax attributable to equity holders of the parent</b>	<b>21.4</b>	16.1	34.7
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Actuarial gains/(losses) on defined benefit pension schemes	4.3	(4.8)	(1.9)
Movement on deferred tax relating to pension schemes	(1.5)	1.7	0.7
	<b>2.8</b>	(3.1)	(1.2)
<b>Items that may be reclassified subsequently to profit or loss</b>			
Exchange differences on translation of foreign operations	(9.8)	2.7	(0.2)
Exchange difference reclassified to income statement on disposal of foreign operation	-	-	(1.4)
Tax on exchange differences on translation of foreign operations	(0.1)	(0.6)	0.5
	<b>(9.9)</b>	2.1	(1.1)
<b>Total comprehensive income attributable to equity holders of the parent</b>	<b>14.3</b>	15.1	32.4

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year to 30 April 2021

## Unaudited half year to 30 April 2021

	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 2020	2.8	306.7	12.9	1.0	(18.9)	28.0	(2.9)	329.6
Profit after tax	-	-	-	-	-	21.4	-	21.4
Other comprehensive (loss)/income	-	-	-	-	(9.8)	4.3	-	(5.5)
Tax relating to components of other comprehensive (loss)/income	-	-	-	-	(0.1)	(1.5)	-	(1.6)
Total comprehensive income	-	-	-	-	(9.9)	24.2	-	14.3
Ordinary shares issued	0.1	-	-	-	-	-	-	0.1
Share-based payments (net of settlement)	-	-	-	-	-	1.6	-	1.6
Dividends paid	-	-	-	-	-	(7.4)	-	(7.4)
Purchase of shares by employee share ownership plan trust	-	-	-	-	-	(1.5)	-	(1.5)
Transactions in own shares	-	-	-	-	-	(2.9)	2.9	-
<b>At 30 April 2021</b>	<b>2.9</b>	<b>306.7</b>	<b>12.9</b>	<b>1.0</b>	<b>(28.8)</b>	<b>42.0</b>	<b>-</b>	<b>336.7</b>

## 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)
<b>At 30 April 2020</b>	<b>2.8</b>	<b>306.2</b>	<b>12.9</b>	<b>1.0</b>	<b>(15.7)</b>	<b>10.4</b>	<b>(2.9)</b>	<b>314.7</b>

## Audited year to 31 October 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	-	-	-	-	-	34.7	-	34.7
Other comprehensive loss	-	-	-	-	(1.6)	(1.9)	-	(3.5)
Tax relating to components of other comprehensive income	-	-	-	-	0.5	0.7	-	1.2
Total comprehensive income	-	-	-	-	(1.1)	33.5	-	32.4
Ordinary shares issued	-	0.5	-	-	-	-	-	0.5
Share-based payments (net of settlement)	-	-	-	-	-	3.6	-	3.6
Dividend paid	-	-	-	-	-	(10.4)	-	(10.4)
Purchase of shares by employee share ownership plan trust	-	-	-	-	-	(2.3)	-	(2.3)
Transactions in own shares	-	-	-	-	-	(4.9)	4.9	-
<b>At 31 October 2020</b>	<b>2.8</b>	<b>306.7</b>	<b>12.9</b>	<b>1.0</b>	<b>(18.9)</b>	<b>28.0</b>	<b>(2.9)</b>	<b>329.6</b>

## CONDENSED CONSOLIDATED BALANCE SHEET

as at 30 April 2021

	Note	Unaudited As at 30 April 2021 £m	Unaudited As at 30 April 2020 £m	Audited As at 31 Oct 2020 £m
<b>Non-current assets</b>				
Goodwill		105.1	109.8	108.5
Development costs		28.8	28.6	29.8
Other intangible assets		11.9	21.3	16.6
Property, plant and equipment		191.9	186.5	194.0
Deferred tax		16.6	19.8	15.7
Retirement benefit surplus		11.8	4.8	7.6
		<b>366.1</b>	<b>370.8</b>	<b>372.2</b>
<b>Current assets</b>				
Inventories		80.3	91.1	91.3
Trade and other receivables		58.5	60.4	62.8
Cash and cash equivalents	11	3.6	104.2	14.7
Derivative financial instruments	8	0.8	0.4	0.4
		<b>143.2</b>	<b>256.1</b>	<b>169.2</b>
Assets classified as held for sale		-	10.4	-
<b>Total assets</b>		<b>509.3</b>	<b>637.3</b>	<b>541.4</b>
<b>Current liabilities</b>				
Borrowings	11	(0.9)	(49.7)	-
Lease liabilities	11	(1.4)	(1.6)	(1.5)
Trade and other payables		(78.6)	(106.8)	(97.2)
Provisions		(2.6)	(4.9)	(3.3)
Current tax		(8.0)	(5.6)	(9.1)
Derivative financial instruments	8	(0.1)	(2.4)	(0.7)
		<b>(91.6)</b>	<b>(171.0)</b>	<b>(111.8)</b>
Liabilities directly associated with assets classified as held for sale		-	(2.8)	-
<b>Non-current liabilities</b>				
Borrowings	11	(36.9)	(108.8)	(57.5)
Lease liabilities	11	(3.0)	(4.6)	(3.8)
Provisions		(15.0)	(11.0)	(15.7)
Deferred tax		(26.0)	(24.3)	(22.9)
Preference shares	11	(0.1)	(0.1)	(0.1)
		<b>(81.0)</b>	<b>(148.8)</b>	<b>(100.0)</b>
<b>Total liabilities</b>		<b>(172.6)</b>	<b>(322.6)</b>	<b>(211.8)</b>
<b>Net assets</b>		<b>336.7</b>	<b>314.7</b>	<b>329.6</b>
<b>Equity</b>				
Share capital		2.9	2.8	2.8
Share premium account		306.7	306.2	306.7
Special capital reserve		12.9	12.9	12.9
Revaluation reserve		1.0	1.0	1.0
Translation reserve		(28.8)	(15.7)	(18.9)
Retained earnings		42.0	10.4	28.0
		<b>336.7</b>	<b>317.6</b>	<b>332.5</b>
Own shares		-	(2.9)	(2.9)
<b>Total equity</b>		<b>336.7</b>	<b>314.7</b>	<b>329.6</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
for the half year to 30 April 2021

	Note	Unaudited Half year to 30 April 2021 £m	Unaudited Half year to 30 April 2020 £m	Audited Year to 31 Oct 2020 £m
<b>Cash flows from operating activities</b>				
Cash generated from continuing underlying operations	10	36.1	56.2	82.4
Cash impact of continuing non-underlying items		(0.2)	(2.2)	(3.6)
Cash utilised in discontinued underlying operations	10	-	(0.4)	(2.6)
Cash impact of discontinued non-underlying items	10	(0.3)	(0.6)	(1.3)
Cash flows from operating activities		35.6	53.0	74.9
Tax (paid)/received		(3.8)	(0.3)	1.0
<b>Net cash inflow from operating activities</b>		<b>31.8</b>	<b>52.7</b>	<b>75.9</b>
<b>Cash flows from investing activities</b>				
Purchases of intangible assets		(0.9)	(2.6)	(5.2)
Purchases of property, plant and equipment		(13.2)	(17.3)	(35.6)
Customer funding for capital programmes		-	-	0.9
Proceeds on disposal of subsidiary		0.4	0.8	14.5
<b>Net cash outflow from investing activities</b>		<b>(13.7)</b>	<b>(19.1)</b>	<b>(25.4)</b>
<b>Cash flows from financing activities</b>				
Dividends paid	7	(7.4)	(6.8)	(10.4)
Purchase of own shares		(1.5)	(0.3)	(2.4)
Proceeds from issue of shares		-	-	0.5
Finance expense paid		(2.2)	(2.3)	(3.0)
Drawdown of borrowings		-	157.6	108.0
Repayments of borrowings		(18.3)	(73.1)	(123.1)
Payment of lease liabilities		(0.8)	(0.8)	(1.7)
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(30.2)</b>	<b>74.3</b>	<b>(32.1)</b>
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(12.1)</b>	<b>107.9</b>	<b>18.4</b>
Cash and cash equivalents at beginning of period/year		14.7	(3.3)	(3.3)
Effect of foreign exchange rate changes		0.1	(0.4)	(0.4)
<b>Cash and cash equivalents at end of period/year (including bank overdraft)</b>	11	<b>2.7</b>	<b>104.2</b>	<b>14.7</b>

## 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 2021. The information for the year ended 31 October 2020 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. Full accounts for the year ended 31 October 2020, 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. This condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The annual financial statements of the group for the year ended 31 October 2021 will be prepared in accordance with International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the company's published consolidated financial statements for the year ended 31 October 2020 which were prepared in accordance with IFRSs as adopted by the EU with the exception of income tax and any new and amended standards as set out below.

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, the initial term of the facility ending in October 2022.

As part of their regular assessment of the Group's working capital and financing position, the Directors have prepared a detailed bottom-up trading budget and cash flow forecast for the period through to October 2022, 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. 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 financial report.

**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 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 2020 with the exception of income tax which is detailed 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 2020.

Income tax expense is recognised at an amount determined by multiplying the profit before tax for the interim reporting period by management’s best estimate of the weighted-average annual income tax rate expected for the full financial year, adjusted for the tax effect of certain items recognised in full in the interim period. As such, the effective tax rate in the interim financial statements may differ from management’s estimate of the effective tax rate for the annual financial statements.

**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 2021 but have not materially impacted the reported results or the financial position:

- Amendments to IFRS 7 *Financial Instruments: Disclosures*;
- Amendments to IFRS 16 *Leases*;
- Amendments to IAS 1 *Presentation of Financial Statements*; and
- Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

## 2. SEGMENTAL ANALYSIS

### Period to 30 April 2021 (unaudited)

	Sensors & Information £m	Countermeasures & Energetics £m	Unallocated £m	Group £m
Revenue	74.4	124.1	-	198.5
Segment result before depreciation, amortisation and non-underlying items	16.6	27.5	(6.5)	37.6
Depreciation	(1.3)	(7.9)	-	(9.2)
Amortisation	-	(0.3)	-	(0.3)
Segmental underlying operating profit	15.3	19.3	(6.5)	28.1
Amortisation of acquired intangibles	(2.6)	(1.1)	-	(3.7)
Non-underlying items: mark-to-market foreign exchange gain	-	-	0.8	0.8
Segmental operating profit	12.7	18.2	(5.7)	25.2

### Period to 30 April 2020 (unaudited)

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

### Year ended 31 October 2020 (audited)

	Sensors & Information £m	Countermeasures & Energetics £m	Unallocated £m	Group £m
Revenue	137.2	265.3	-	402.5
Segment result before depreciation, amortisation and non-underlying items	30.7	56.5	(12.6)	74.6
Depreciation	(2.8)	(15.7)	-	(18.5)
Amortisation	(0.5)	(0.9)	-	(1.4)
Segmental underlying operating profit	27.4	39.9	(12.6)	54.7
Amortisation of acquired intangibles	(6.4)	(2.5)	-	(8.9)
Non-underlying items: mark-to-market foreign exchange gain	-	-	0.5	0.5
Segmental operating profit	21.0	37.4	(12.1)	46.3



### 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 2021 £m	Unaudited period to 30 April 2020 £m	Audited year ended 31 October 2020 £m
Gain/(loss) on the movement in the fair value of derivative financial instruments	0.8	(0.8)	0.5
<b>Impact of non-underlying items on EBITDA</b>	<b>0.8</b>	<b>(0.8)</b>	<b>0.5</b>
Intangible amortisation arising from business combinations	(3.7)	(4.4)	(8.9)
<b>Impact of non-underlying items on operating profit and profit before tax</b>	<b>(2.9)</b>	<b>(5.2)</b>	<b>(8.4)</b>
Tax impact of non-underlying items	0.4	1.6	0.5
<b>Impact of non-underlying items on continuing profit after tax</b>	<b>(2.5)</b>	<b>(3.6)</b>	<b>(7.9)</b>
Discontinued operations after tax	-	(0.1)	0.1
<b>Impact of non-underlying items on profit after tax</b>	<b>(2.5)</b>	<b>(3.7)</b>	<b>(7.8)</b>

#### Derivative financial instruments

Included in non-underlying items is a £0.8m gain (H1 2020: £0.8m loss, 2020: £0.5m gain) 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 £3.7m (H1 2020: £4.4m, 2020: £8.9m). 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 2021, the tax impact of continuing non-underlying items comprises a £0.4m tax credit (H1 2020: £1.6m credit, 2020: £0.5m credit) on the above non-underlying items.

### 4. SEASONALITY OF REVENUE

Revenue in the Countermeasures & Energetics segment 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 products by customers.

Revenue in the Sensors & Information segment is more evenly spread, with a slight bias to the first half at Roke with revenue driven by the UK Government budget years.

## 5. TAX

	Unaudited period to 30 April 2021 £m	Unaudited period to 30 April 2020 £m	Audited year ended 31 October 2020 £m
Underlying tax charge	3.3	4.3	9.1
Tax impact of non-underlying items	(0.4)	(1.6)	(0.5)
Total statutory tax charge	2.9	2.7	8.6

The continuing statutory tax charge totalled £2.9m (H1 2020: £2.7m, 2020: £8.6m) on a continuing statutory profit before tax of £24.3m (H1 2020: £19.0m, 2020: £43.3m).

The effective tax rate on underlying profit before tax for the period is a charge of 12.1% (H1 2020: 17.8%, 2020: 17.6%) which is lower than the estimated effective tax rate on underlying profit before tax expected for the full year due to the expectation that the UK Finance Bill 2021 will be substantively enacted in the second half of the year, as discussed below. The effective tax rate is lower than the 2020 effective tax rate due to the recognition of a deferred tax asset in respect of future US interest deductions.

The UK Finance Bill 2021 was published on 11 March 2021. The bill provides for an increase in the rate of corporation tax from 19% to 25% with effect from 1 April 2023. As the legislation was not substantively enacted at the balance sheet date its effect has not been included in these financial statements. If the changes had been taken into account in preparing the financial statements the impact would have been to increase the value of the deferred tax liability by approximately £1.4m and increase the deferred tax asset by £0.5m.

## 6. EARNINGS PER SHARE

Earnings per share are based on the average number of shares in issue, excluding own shares held, of 281,391,352 (H1 2020: 280,966,749, 2020: 281,447,284). Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 288,152,175 (H1 2020: 288,374,089, 2020: 288,416,915).

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

	£m	Basic EPS (pence)	Unaudited Half year to 30 April 2021 Diluted EPS (pence)	£m	Basic EPS (pence)	Unaudited Half year to 30 April 2020 Diluted EPS (pence)
Underlying profit after tax	23.9	8.5	8.3	19.9	7.1	6.9
Non-underlying items	(2.5)			(3.6)		
Profit from continuing operations	21.4	7.6	7.4	16.3	5.8	5.7
Loss from discontinued operations	-	-	-	(0.2)	(0.1)	(0.1)
Total profit after tax	21.4	7.6	7.4	16.1	5.7	5.6

	£m	Basic EPS (pence)	Diluted EPS (pence)	£m	Basic EPS (pence)	Diluted EPS (pence)
Underlying profit after tax	42.6	15.1	14.8			
Non-underlying items	(7.9)					
Profit from continuing operations	34.7	12.3	12.0			
Loss from discontinued operations	-	-	-			
Total profit after tax	34.7	12.3	12.0			

## 7. DIVIDENDS

At the Annual General Meeting on 4 March 2021 the shareholders approved a final dividend in respect of the year ended 31 October 2020 of 2.6p per ordinary share (2020: 2.4p). This was paid on 23 April 2021 to shareholders on the register on 6 April 2021 and totalled £7.4m (2020: £6.8m).

The Board also declared an interim dividend in respect of 2021 of 1.6p per ordinary share (2020: 1.3p) which will be paid on 10 September 2021 to shareholders on the register on 20 August 2021. The estimated cash value of this dividend is £4.5m (2020: £3.6m).

## 8. FINANCIAL INSTRUMENTS

As at 30 April 2021, 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 2021, the total fair value of forward foreign exchange contracts recognised in the condensed consolidated balance sheet were an asset of £0.8m (H1 2020: £0.4m, 2020: £0.4m) and current liability of £0.1m (H1 2020: £2.4m, 2020: £0.7m).

## 9. RELATED PARTY TRANSACTIONS

Transactions with related parties are shown on page 134 of the 2020 Annual Report. There were no significant related party transactions during the current period requiring disclosure.

## 10. CASH FLOWS FROM UNDERLYING OPERATIONS

	Unaudited Half year to 30 April 2021 £m	Unaudited Half year to 30 April 2020 £m	Audited Year to 31 Oct 2020 £m
Operating profit from continuing operations	25.2	20.4	46.3
Amortisation of development costs	0.3	0.7	1.4
Amortisation of intangible assets arising from business combinations	3.7	4.4	8.9
Amortisation of patents and licenses	-	0.1	-
Loss on disposal of non-current assets	-	-	0.3
Depreciation of property, plant and equipment	9.2	8.8	18.5
Non-cash movement of non-underlying items	(0.8)	0.8	(0.5)
Share-based payment expense	2.1	2.0	4.0
Operating cash flows before movements in working capital	39.7	37.2	78.9
Decrease/(increase) in inventories	8.1	(11.8)	(12.2)
Decrease/(increase) in trade and other receivables	3.3	(7.5)	(9.9)
(Decrease)/increase in trade and other payables	(14.8)	38.4	25.2
(Decrease)/increase in provisions	(0.2)	(0.1)	0.4
<b>Operating cash flow from continuing underlying operations</b>	<b>36.1</b>	<b>56.2</b>	<b>82.4</b>
<b>Discontinued operations</b>			
Operating cash flow from discontinued underlying operations	-	(0.4)	(2.6)
Cash impact of non-underlying items from discontinued operations	(0.3)	(0.6)	(1.3)
Net cash outflow from discontinued operating activities	(0.3)	(1.0)	(3.9)
Net cash inflow from discontinued investing activities	0.4	0.3	14.0
Net cash inflow/(outflow) from discontinued operations	0.1	(0.7)	10.1

## 11. ANALYSIS OF NET DEBT

	As at 1 Nov 2020 £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	As at 30 April 2021 £m
Cash and cash equivalents *	14.7	(12.1)	-	0.1	2.7
Debt due after one year	(57.5)	18.3	(0.3)	2.6	(36.9)
Lease liabilities	(5.3)	0.8	(0.1)	0.2	(4.4)
Preference shares	(0.1)	-	-	-	(0.1)
	(48.2)	7.0	(0.4)	2.9	(38.7)

The Group has a £145m multi-currency Revolving Credit Bank facility, which is with a syndicate of five banks, 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 £105.2m (H1 2020: £83.6m, 2020: £86.4m) 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. The half year leverage ratio was 0.5 times (covenant limit of 3 times) and the half year interest cover ratio was 30 times (covenant limit of 4 times).

\*Cash and cash equivalents in the table above includes the bank overdraft classified within current borrowings on the balance sheet.

## 12. EXCHANGE RATES

The following exchange rates applied during the period:

	Average rate H1 2021	Closing rate H1 2021	Average rate H1 2020	Closing rate H1 2020	Average rate 2020	Closing rate 2020
AU dollar	1.82	1.79	2.06	1.93	1.84	1.84
US dollar	1.39	1.38	1.28	1.26	1.28	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 2021, a 10 cent increase in the US dollar exchange rate would have decreased reported underlying operating profit for the first half of 2021 by approximately £1.4m and decreased reported net debt at 30 April 2021 by approximately £2.4m.

## 13. 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.

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.

#### **14. EVENTS AFTER THE BALANCE SHEET DATE**

On 2 June 2021, Chemring Group PLC acquired 100% of the issued shares in Cubica Technology Limited ("Cubica") and Q6 Holdings Limited ("Q6"), collectively the "Cubica Group". Cubica Group specialise in machine learning, data fusion and autonomous systems. The acquisition has strong synergies to Roke and will expand the group's existing capabilities and product offerings.

The acquisition has been completed for an initial cash consideration of £7.0m, funded from Chemring's existing bank facilities. Further deferred consideration of up to £2.0m is payable in Chemring 1p ordinary shares in two tranches on the second and third anniversary of completion subject to certain performance conditions.

At the time the interim financial statements were authorised for issue, the group had not yet completed the accounting for the acquisition. The financial effects of this transaction have not been recognised at 30 April 2021. The operating results and assets and liabilities of the acquired company will be consolidated from 3 June 2021.

Based on unaudited accounts, in the twelve months to 31 March 2021, Cubica Group reported an adjusted profit before tax of £0.8m (2020: £0.4m) on revenue of £2.9m (2020: £1.8m). The gross assets of Cubica Group at 31 March 2021 were £3.1m (2020: £2.0m), and net assets at 31 March 2021 were £1.4m (2020: £0.8m).

#### **15. 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 2020 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 38 to 44 of the 2020 Annual Report and Accounts. These risks can be summarised as:

- occupational and process safety risks;
- environmental laws and regulations risks;
- market-related risks;
- political risks;
- contract-related risks;
- technology risks;
- 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.

#### **16. CORPORATE WEBSITE**

Further information on the Group and its activities can be found on the corporate website at [www.chemring.co.uk](http://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 2021 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 2021 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union 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 latest annual financial statements of the group were prepared in accordance with International Financial Reporting Standards as adopted by the EU and the next annual financial statements will be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

### **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  
for and on behalf of KPMG LLP  
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SO53 3TG

3 June 2021