Chemring Group

17 JANUARY 2019

CHEMRING GROUP PLC

RESULTS FOR THE YEAR ENDED 31 OCTOBER 2018

	As reported		***At 2017 exchange rates***		
	2018	*Change*	*2018*	*Change*	2017
Continuing operations					
Revenue	**£297m**	-3%	*£306m*	-	£307m
Underlying EBITDA*	**£50m**	-9%	*£51m*	*-7%*	£55m
Underlying operating profit*	**£31m**	-	*£32m*	*+3%*	£31m
Underlying profit before tax*	**£25m**	+ 25%	*£26m*	*+30%*	£20m
Statutory loss before tax	**£(22)m**				£(7)m
Underlying earnings per share*	**6.9p**	+ 17%			5.9p
Dividend per share	**3.3p**	+ 10%			3.0p
Net debt	**£82m**	+ 2%			£80m

Key points

- Underlying operating profit* flat at £31m, reflecting the impact of the incident at our UK Countermeasures site in August offsetting growth in US countermeasures
- Strategic decision announced on 15 November 2018 to exit commodity Energetics businesses; classified as discontinued and held for sale resulting in impairment charges of £69m. Year end order book of these businesses was £68m (2017: £153m)
- Net debt flat year on year, reflecting good operational cash generation, offset by the start of the investment in the Tennessee facility and the impact of the incident at our UK Countermeasures site. Net debt : EBITDA of 1.64x and pension fund in IAS19 surplus
- Contract awards on US counter-IED, Chemical and Biological Detection Programs of Record
- Order book of the continuing business at year end of £394m (2017: £325m), increase driven by growth in Energetics and US Countermeasures. £242m currently due as revenue in FY19, approximately 70% coverage of FY19 targeted revenue
- Board recommending a final dividend of 2.2p per ordinary share, giving a total dividend of 3.3p per ordinary share (2017: 3.0p)
- Board's expectations for 2019 performance remain unchanged, again with a significant H2 weighting

Michael Ord, Chemring Group Chief Executive, commented:

"2018 was a mix of financial and operational progress, offset by the impact of the incident at our Countermeasures site in August. We ended 2018 in line with our revised expectations. Our trading since the start of the current financial year has been in line with the Board's expectations across all businesses.

Since joining the Group six months ago, I have been impressed by the technological spread that Chemring has and the strength of our positions in many of our markets. I have also been struck by the depth of technical capability within our workforce. I have and will continue to place the greatest emphasis on safety. Protecting our people, customers and communities has to be at the heart of what we do.

With high technology products and market leading positions Chemring has the platforms for long-term future growth. We have already achieved a number of significant milestones on the journey to build a stronger business and will continue to focus our efforts on re-structuring, simplifying and strengthening the business in order to capitalise on our significant market opportunities.

I am excited about the prospects of the Group and look forward to making further progress in 2019."

Notes:
*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.

All profit and earnings per share figures in this announcement relate to underlying business performance (as defined above) unless otherwise stated.

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

Group – continuing operations:	**Underlying**	**Non-underlying**	**Statutory**
EBITDA (£m)	50.0	(27.2)	22.8
Operating profit/(loss) (£m)	31.0	(46.9)	(15.9)
Profit/(loss) before tax (£m)	24.9	(46.9)	(22.0)
Tax charge (£m)	(5.7)	(13.1)	(18.8)
Profit/(loss) after tax (£m)	19.2	(60.0)	(40.8)
Basic earnings/(loss) per share (pence)	6.9p	(21.5)p	(14.6)p
Diluted earnings/(loss) per share (pence)	6.7p	(21.3)p	(14.6)p
Group – discontinued operations:			
Profit/(loss) after tax (£m)	6.2	(71.2)	(65.0)
Segments – continuing operations:			
Countermeasures EBITDA (£m)	23.6	(10.8)	12.8
Countermeasures operating profit/(loss) (£m)	12.1	(16.3)	(4.2)
Sensors EBITDA (£m)	18.5	(0.7)	17.8
Sensors operating profit (£m)	15.3	(10.1)	5.2
Energetics EBITDA (£m)	16.0	-	16.0
Energetics operating profit (£m)	11.8	(4.8)	7.0

The adjustments to continuing operations comprise:

- amortisation of acquired intangibles of £11.6m (2017: £12.1m)
- exceptional items of £4.1m (2017: £2.1m) relating to acquisition and disposal related costs
- exceptional items of £8.1m (2017: £14.0m) relating to business restructuring costs
- exceptional items of £12.8m (2017: £0.4m) relating to legal costs
- exceptional items of £1.7m (2017: £nil) relating to the costs associated with the change of Chief Executive
- exceptional items of £0.8m (2017: £nil) associated with the GMP pension equalisation court ruling
- exceptional items of £7.4m (2017: £nil) relating to the impairment of product development costs
- loss on the movement in the fair value of derivative financial instruments of £0.4m (2017: £1.7m gain)
- impact of US Tax Cuts and Jobs Act and tax credit on adjustments £13.1m (2017: £6.1m credit)

The discontinued operations profit after tax comprises:

- operating profit of £8.0m (2017: £23.9m)
- exceptional items of £69.3m (2017: £9.8m) relating to the impairment of the carrying value of discontinued businesses now held for sale
- amortisation of acquired intangibles of £2.7m (2017: £2.9m)
- release of provisions in respect of previously disposed businesses of £nil (2017: £3.0m credit)
- tax charge on the above of £1.0m (2017: £3.3m)

Further details are provided in notes 3 and 4.

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Cautionary statement

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

Notes to editors

- Chemring is a global business that specialises in the manufacture of high technology products and the provision of services to the aerospace, defence and security markets
- Employing approximately 2,500 people worldwide, and with production facilities in four countries, Chemring meets the needs of customers in more than fifty countries
- Chemring is now organised under two strategic product segments: Sensors & Information, and Countermeasures & Energetics
- Chemring has a diverse portfolio of products that deliver high reliability solutions to protect people, platforms, missions and information against constantly changing threats
- Operating in niche markets and with strong investment in research and development, Chemring has the agility to rapidly react to urgent customer needs

www.chemring.co.uk

Presentation and photography

The presentation slides and a live audio webcast of the presentation to analysts will be available at the Chemring Group results centre www.chemring.co.uk/investors/results-centre at 09.30 (UK time) on 17 January 2019. A recording of the audio webcast will be available later that day. Original high-resolution photography is available to the media by contacting Luke Briggs, MHP Communications: luke.briggs@mhpc.com / tel: 020 3128 8100.

Group overview

In 2018 the Group made progress on its roadmap to deliver long-term growth and a more sustainable business model, and in the final quarter of the year made encouraging progress on the targeted US programs in counter-IED and chemical and biological detection. However, on 10 August an incident occurred in a flare mixing building at our UK Countermeasures site in which two colleagues were injured, one fatally. Production at the site was immediately suspended and an investigation launched into the cause of the incident.

The injured colleague continues to make good progress and the Group is committed to supporting him and his family throughout his recovery, along with the family of our colleague who lost his life in the incident.

The incident at our UK Countermeasures site serves as a reminder that elements of our manufacturing processes involve the use of hazardous materials. We shall continue to invest in safety and in automation in order to remove personnel from exposure to hazard.

The Board is fully committed to the goal of zero harm.

Following the closure of our UK Countermeasures site, and in close collaboration with the regulatory bodies, a phased restart of non-energetic material production and the shipment of finished goods inventory was commenced. The resulting impact of the incident on the Group's FY18 result was to reduce revenue by £22m and underlying operating profit by £17m. 2019 will be a year where the site focuses on gradually increased activity levels.

Elsewhere, the Group has made good progress on its strategy to move away from commoditised product lines to focus on higher margin and more predictable revenue streams. In light of this, the Board announced on 15 November 2018 that it had decided to exit the commoditised Energetics business, these businesses have therefore been treated as discontinued activities and shown as held for sale.

Two years ago, and following the rights issue that strengthened the Group's balance sheet, we reported that ongoing execution against the US Programs of Record within the Sensors segment, combined with a slow but steady ramp up of F-35 Joint Strike Fighter countermeasure requirements, were key to future growth. It was therefore pleasing to see the progress made in year against these goals.

Given some of the items mentioned above and a review of a number of balance sheet items, all announced on 15 November 2018, these FY18 results reflect non-underlying items, primarily non-cash, of £131m. These results provide disclosure on the various items and necessitate the disclosure of adjusted, continuing and discontinued figures which makes the disclosure more extensive. The Board believes these actions are necessary and part of us building a stronger business for the future.

Safety

Our goal is a zero harm environment, this is not set as a statistical target, but as a moral imperative that will be achieved through establishing a Generative Safety Culture, with three focus areas of People, Plant and Process.

In September 2018, we commissioned an independent safety review of all our sites, which assessed in-depth our culture, management systems and practises. As a result of this review, we have introduced a completely new Health and Safety strategy and plan, in order to ensure that we become a more proactive organisation with an even greater focus on prevention not cure; enabling us to better identify in advance potential hazards and to put in place mitigations in order to reduce the probability of an incident occurring. This strategy will also deliver a more consistent way of managing safety across our organisation, particularly the control of major hazards.

Chief Executive's Review

I became Chief Executive on 1 July 2018 and spent my first six months visiting all our businesses and meeting as many colleagues and customers as possible. I have been impressed by the technological spread that Chemring has and the strength of our positions in many of our markets. Most of all I have been struck by the depth of technical capability within our workforce. I have placed the greatest emphasis on safety, to ensure that everyone goes home safely at the end of the day. Protecting our people, customers and communities has to be at the heart of what we do.

Chemring is a technology-rich company with an international footprint and a breadth of market leading products and services. It occupies niche market positions and has strong, long-term relationships with its customers. These provide a strong platform for future growth, however, we will only achieve this success by complete commitment to our purpose, which is to relentlessly innovate to protect our customers. Our strategy is to deliver profitable growth by operating in markets where we have differentiators such as intellectual property, niche technology, expertise, high barriers to entry, and by investing in innovation to meet our customers' needs.

Going forward, we will focus our efforts on strategy, structure and our culture.

Strategy:
The Board concluded that the Group would exit the low margin commoditised Energetics businesses located in Derby and Florida, where contracts are often lumpy. On 15 November 2018 the Group announced its intention to treat these businesses as discontinued operations, and that within the Energetics segment our future focus should be on the niche specialist energetic materials businesses in Chicago, Scotland and Norway, where we have strong intellectual property and high barriers to entry.

This strategic move will simplify the Group and enable greater focus and investment. It will improve the quality of the Group and its earnings.

My review also concluded that in parts Chemring still maintains a federated business model with limited collaboration. As a consequence of this there are a mix of processes and standards across the Group. The opportunity therefore exists to re-structure, simplify, and build a stronger group that can capitalise on the significant market prospects that exist.

Structure:
In future we will be organised under two sectors – Sensors & Information, and Countermeasures & Energetics. Future disclosure will be of these two sectors, rather than the current three segment approach.

The focus within each sector is clear:

In Sensors & Information we have world-leading technologies and incumbent supplier advantage, having secured positions on major long-term US Programs of Record. We now need to move successfully through technical qualification to large scale manufacture in the years ahead and to organise ourselves and invest accordingly. We will also look beyond these near-term programs and contracts and develop our plans to exploit our incumbent position for the longer term. We must utilise our capabilities in adjacent markets and across geographies by innovating and recognising our customer's needs before they do. The Board believes that the Sensors & Information sector offers the greatest opportunities for significant sustainable growth and attractive margin performance.

Following the proposed divestment of the commodity Energetics business, in Countermeasures & Energetics we will also have world-leading technologies and incumbent supplier advantage. We are the number one global countermeasures supplier and will invest to improve the quality and safety of our operations and match rising customer demand. We occupy niche positions in specialist energetics, often

on long-term programmes, where long-term supply agreements are in place. We will invest to protect these positions and seek, over time, to safely improve our operating margins.

Culture:
We have strengthened the leadership team both in the UK and the US. We have already begun the move to standardise our processes and standards. An Operational Framework, that defines both what we should do at Chemring, and how we should do it, has recently been put in place. This Operational Framework is the reference source to all mandated policies across the Group. It incorporates our values, our policies and procedures, and provides the necessary governance to enable us to operate in a safe, consistent and accountable way.

The longer-term potential
We have already achieved a number of significant milestones on the journey to build a stronger business and will continue to focus our efforts on restructuring, simplifying and strengthening the business in order to capitalise on our significant market opportunities. After success in building a stronger business our longer-term focus will increasingly move to further enhancing the Group's growth potential and delivery thereon.

Markets

Global defence budgets are growing at 2-3% per year but military investment in specific capabilities varies much more widely. New capabilities to meet new perceived threats, such as electronic warfare and cyber, are growing. Others, such as countermeasures, are subject to catch-up funding, and others are declining as military needs are changing. Our strategy is to target growing niches within the defence and security markets, based on our detailed understanding of customers' new and emerging needs and targeted investment in innovation, largely in the Sensors segment.

The US is the world's largest defence market and our US businesses are well positioned to benefit from this growing defence budget.

The FY19 National Defense Authorization Act was passed in August 2018. The base budget of $617bn for FY19 "Begins recovery from over $400bn on lost capability" arising from the Bipartisan Budget Acts in 2011, 2013 and 2018 (source: US Defense Budget Briefing presentation February 2018). The President's Budget Request also projects steady growth of 4% per year out to 2021 to sustain personnel increases in all four services, major equipment programmes, such as the F-35 and investments in technology innovation.

Several of the identified technology innovation initiatives align with Chemring's Group-wide capabilities in Electronic Warfare, Autonomy, Cyber, Artificial Intelligence and Space.

The countermeasures market is starting to show some positive signs with an increase in solicitation, bid activity and orders received throughout the year, particularly within the US. The broader global countermeasures market remains more robust with improving levels of activity in the UK and the rest of the world.

Customer budgets for Roke's security services are rising, as are ongoing development efforts in support of US Programs of Record in the counter-IED, chemical and biological detection markets. Contract awards for new sensors products have been achieved during the year under a number of US Programs of Record.

Within Energetics, the Group is seeing a medium-term trend of increased demand for specialist products, particularly for applications in the space, missile, aerospace and high explosive materials markets, balanced by a decline in the more commodity-based pyrotechnics and ammunition markets.

Group Financial Performance

The Group's financial performance was in line with the summary provided in the announcement released on 15 November 2018.

The underlying operating profit from continuing operations of £31.0m (2017: £31.5m) resulted in an underlying operating margin of 10.4% (2017: 10.3%). The flat margin primarily reflects the financial impact of the Salisbury incident which offset a richer margin mix from a combination of operational improvement and the operational gearing in the US Countermeasures business.

Foreign exchange translation has had a limited impact on year-on-year comparison. On a continuing constant currency basis, restating the current year at the FY17 average exchange rate, revenue would have been £305.5m and underlying operating profit would have been £31.9m.

Total finance expense fell significantly to £6.1m (2017: £11.3m). This was driven by the repayment of expensive private placement loan notes in November 2017 and the focus on reducing intra period working capital volatility.

This left an underlying profit before tax from continuing operations of £24.9m (2017: £20.2m). The effective tax rate on the underlying profit before tax from continuing operations was 22.9% (2017: 18.3%). The underlying earnings from continuing operations per share was 6.9p (2017: 5.9p).

Statutory operating loss from continuing operations was £15.9m (2017: £4.6m profit) and after statutory finance expenses of £6.1m (2017: £11.3m), statutory loss before tax from continuing operations was £22.0m (2017: £6.7m), giving statutory loss per share from continuing operations of 14.6p (2017: 1.5p). The statutory loss from discontinued operations was £65.0m (2017: £10.9m profit), giving a statutory loss of £105.8m (2017: £6.6m profit) from continuing and discontinued operations. A reconciliation of underlying to statutory profit measures is provided in note 3. The non-underlying costs relate to the amortisation of acquired intangibles, deferred consideration on acquisitions, legal costs associated with the ongoing investigations, the write off of assets and demolition costs at the Tennessee site, the costs associated with the change of Chief Executive and the revaluation of deferred tax assets in the USA following the new tax legislation enacted in December 2017. In addition, following a strategic product portfolio review the Group has recognised an impairment charge of £7.4m in respect of certain products where capitalised development costs are no longer considered fully recoverable.

Revenue from discontinued operations fell to £138.6m (2017: £240.4m) and underlying operating profit fell to £8.0m (2017: £23.9m) primarily as a result of the lower levels activity on 40mm and NSA product lines. A review of the carrying value of the businesses held for sale resulted in an impairment of £69.3m (2017: £9.8m). This is based on the current market conditions in the military and law enforcement commodity ammunition and pyrotechnics market.

Finance expenses

Following the repayment of £51.4m of private placement loan notes in November 2017, the total finance expense fell to £6.1m (2017: £11.3m).

Total finance expenses included interest costs of £4.7m (2017: £8.5m), amortisation of debt finance costs of £1.3m (2017: £2.4m) and other non-cash finance expenses associated with the defined benefit pension scheme of £0.1m (2017: £0.4m).

Tax

The continuing statutory tax charge totalled £18.8m (2017: £2.4m credit) on a continuing statutory loss before tax of £22.0m (2017: £6.7m). The increase in the continuing effective rate of tax on the results of

the Group is primarily due to recently enacted US tax legislation that reduces the US corporate tax rate, thus reducing the rate of our deferred tax asset, and changes the rules regarding US interest tax deduction limitations. In addition, the rate is impacted by the geographic mix of profits, changes to the amounts of deferred tax assets considered recoverable in respect of both tax losses and prior year adjustments.

The continuing underlying tax charge totalled £5.7m (2017: £3.7m) on a continuing underlying profit before tax of £24.9m (2017: £20.2m). The effective tax rate on underlying profit before tax for the year is a charge of 22.9% (2017: 18.3%).

The US Tax Cuts and Jobs Act ("TCJA") was substantively enacted on 22 December 2017. The TCJA provides for a reduction in the main rate of US federal corporate income tax from 35% to 21% for the period after 1 January 2018, thus first affecting Chemring for part of its 2018 financial year, however the impact on the deferred tax asset has been recognised in full during 2018.

The impact on Chemring has been two-fold; the reduction in the main rate of US federal corporate income tax has resulted in a write-off of deferred tax of £8.6m associated with tax losses and interest restrictions, offset by a £3.9m credit on the revaluation of the deferred tax liabilities associated with US related acquired intangibles. This has resulted in a net write-off of £4.7m in respect of the rate change. In addition, the introduction of restrictions on the availability of interest deductions has resulted in a write-off of deferred tax of £12.7m. The total impact of £17.4m has been treated as a non-underlying item in 2018, see note 3.

The discontinued underlying tax charge was £1.8m (2017: £4.4m) on an underlying profit before tax of £8.0m (2017: £23.9m).

Earnings per share

Underlying earnings per share from continuing operations were 6.9p (2017: 5.9p) and diluted underlying earnings from continuing operations per share were 6.7p (2017: 5.8p).

Total underlying basic earnings per share were 9.1p (2017: 12.9p) and the statutory basic loss per share was 37.8p (2017: 2.4p earnings).

Segmental review - Countermeasures

Performance

The incident at our UK Countermeasures site in August 2018 has affected our 2018 reported results, reducing revenue by approximately £22m and underlying operating profit by approximately £17m.

Countermeasures revenue increased by 1% to £126.0m (2017: £125.3m) and the segment reported an underlying operating profit of £12.1m (2017: £14.4m), down 16%. This decline was driven by the Salisbury incident (see above) and to a much lesser extent a softer year in Australia and masked the improvement achieved in the US business. Underlying operating margins fell to 9.6% from 11.5%.

On a constant currency basis, revenue would have increased by 4% to £130.7m and underlying operating profit would have fallen 12% to £12.7m.

Order intake in the year has been strong with significant orders for both air and naval countermeasures received from UK MOD, international and US customers in particular. The Group's new Special Material Decoy continues to progress and there is evidence of growth in market share.

The year saw significant development on the F-35 program, with our $12m Low Rate Initial Production ("LRIP") 6 contract for the F-35 operational flares now completed. The $15m LRIP 7 contract was awarded and delivery commenced in the year. The contract for LRIP 8 is expected to be awarded later in the year

and will be delivered from our Tennessee facility. Our Australian facility is currently bidding an F-35 contract directly with the US Navy, the outcome of which is expected in the first half of 2019.

Opportunities and outlook

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

During the year the Board approved a project to invest in the Tennessee facility. The project, which is expected to take approximately three years to complete, will result in an automated capability with additional capacity reflecting expected customer demand over the medium term. The majority of the investment will be capital, but some demolition, remediation work, asset and inventory write-offs have been expensed in 2018 as non-underlying costs. This investment, which is expected to safeguard and expand the Group's position in the global countermeasures market, will provide the Tennessee site with a fully automated production line. This is not expected to affect the site's ability to deliver product in 2019. The original budget was approximately $50m and this is under review as plans are refined and issues addressed as the work commences. This will contribute to higher Group capital expenditure over the next two years. Group capital expenditure on 2019 is expected to be in the range of £40m-£50m.

Our Australian facility will close in H1 2019 to be fitted and qualified for F-35 production. As such we expect little contribution from Australia in 2019, but it should exit the year with an F-35 qualified production facility.

The phased restart of our UK Countermeasures site is in progress. We are working with the appropriate regulatory authorities to agree a phased restart plan across the different activities on site. As such, 2019 is planned to be a year where the site progressively gets back to being fully operational. Revenue and operating profit contribution is still expected to be lower than expected before the incident took place. For 2019 our current assumption is that the site will contribute approximately £30m of revenue and break even after accounting for insurance recoveries and remediation costs. Further investment in automation at the Salisbury site is being evaluated.

Countermeasures' order book at 31 October 2018 was £182.8m (2017: £178.6m) and at constant currency the order book would be 1% higher than at 31 October 2017. Of the 31 October 2018 order book, approximately £116m is currently expected to be delivered in 2019, of which £92m can be delivered from our US and Australian facilities.

With a solid order book in place, 2019 trading performance for Countermeasures is expected to be positive, albeit with a significant bias towards the second half as Salisbury progressively re-starts and Australia is re-fitted and qualified.

Segmental review – Sensors

Performance

Sensors revenue decreased by 4% to £87.3m (2017: £91.2m) reflecting a good year at Roke, the continued focus of the US business on the research and development phases of the counter-IED, chemical and biological detection Programs of Record and a weaker year in the Electronic Warfare ("EW") market as the timing of customer orders was delayed. The segment reported an underlying operating profit of £15.3m (2017: £13.4m). Underlying operating margins increased to 17.5% (2017: 14.7%). Order intake was £109.2m, a 15% increase on the prior year.

On a constant currency basis, revenue would have fallen 3% to £88.8m and underlying operating profit would have increased by 16% to £15.5m.

Key developments in the year were customer decisions on major US Programs of Record.

The US DoD's counter-IED program, through the Husky Mounted Detection System ("HMDS") program gave rise to two significant milestones. The award of both a $14m development contract and a 3-year $93m Indefinite delivery, indefinite quantity ("IDIQ") sole-source contract, with an initial delivery order of $23m, were in line with our expectations of the program which has moved to one of spiral development, with concurrent development, trialing, and manufacturing to be undertaken. We expect this program to run for the next decade providing a recurring level of business as the US Army moves to its objective of producing and fielding a fleet of 369 HMDS by mid-2021. The new fleet will be comprised of both refurbished and new HMDS and this activity will run alongside technology upgrade programs.

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

We bid and won a second biological program, the Enhanced Maritime Biological Detection System ("EMBD"), where the customer is the US Navy. This was a competitive bid and our initial contract award for Engineering Manufacturing Development ("EMD") and LRIP was in the form of a $24m IDIQ, with an initial delivery order of $14m. The program is expected to be worth up to $100m over 5-10 years once in full rate production.

The Next Generation Chemical Detector Program saw two of the three phases make contract decisions. Chemring won an award under NGCD 1 (now known as Aerosol and Vapor Chemical Agent Detector – "AVCAD"). This award is in the form of an IDIQ contract. The initial EMD and LRIP phase is expected to be worth approximately $16m in the period to 2022. Following this the customer is expected to have a requirement of approximately $800m. Chemring is one of two contractors selected for this program.

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

During the year Chemring disposed of its 3d-Radar business, but retained the rights to use the technology in the military market.

Opportunities and outlook

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

After a year of significant bid activity in the US, focus now turns to the execution phase for the contracts we have been successful on. Mobilisation has started, with some initial deliveries in 2018, but the focus of 2019 will be ensuring the Virginia and North Carolina facilities are mobilised and resourced to deliver the AVCAD, EMBD, JBTDS and HMDS contracts.

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

The order book for Sensors at 31 October 2018 was £75.4m (2017: £53.2m).

2019 trading performance for Sensors is expected to show an improvement on 2018, driven primarily by initial deliveries under the HMDS awards.

Segmental review – Energetics

Performance – continuing operations
Revenue for Energetics decreased by 7% to £84.1m (2017: £90.6m), while underlying operating profit decreased by 16% to £11.8m (2017: £14.1m), giving an underlying operating margin of 14.0% (2017: 15.6%). The planned closure of the Torrance facility and integration into a modernised Chicago facility has caused some operational disruption, which has delayed some revenues into 2019. On a constant currency basis, revenue would have fallen 5% to £86.0m and underlying operating profit would have fallen 15% to £12.0m.

Chemring's high explosive manufacturing business in Norway has again achieved record order intake levels with significant effort being undertaken to enhance capacity. This investment is supported by a strategy of engaging customers in long-term agreements for supply, which has proved successful with a number of customers moving to this arrangement to secure their continuity of supply.

Performance – discontinued operations
Revenue for the discontinued Energetics business decreased by 42% to £138.6m (2017: £240.4m), while underlying operating profit decreased by 67% to £8.0m (2017: £23.9m), reflecting the decline in 40mm ammunition and non-standard ammunition ("NSA") revenue in 2018.

The expected decline in performance was due to the completion of the large 40mm ammunition contracts to customers in the Middle East. The final shipment under this contract was completed early in the year therefore 40mm ammunition only contributed £11.2m (2017: £64.2m) to revenue in the year.

Sales of procured NSA product fell in the year. Due to the externally sourced nature of the products involved, margins on NSA sales are significantly lower than for manufactured product. Supply of NSA products to the US Government contributed £81.9m (2017: £97.6m) to revenue in the year.

Opportunities and outlook
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.

The order book for the continuing Energetics businesses at 31 October 2018 was £135.5m (2017: £93.4m). 2019 trading performance for the continuing Energetics businesses is expected to show an improvement on 2018, driven primarily by the completion of the site consolidation at our facility in Chicago.

The order book for the discontinued Energetics businesses at 31 October 2018 was £68.2m (2017: £152.8m) and included £nil in respect of 40mm ammunition and £27.1m in respect of NSA.

Net debt and cash flow

The Group's net debt at 31 October 2018 was £81.8m (2017: £80.0m), representing a net debt : underlying EBITDA (continuing) ratio of 1.64x (2017: 1.46x). The financial condition of the Group has improved in a number of aspects during the year. Debt repayments were made which reduces future interest costs, working capital practices were improved to reduce intra period volatility, capitalised development costs have reduced and amortisation now exceeds capitalisation and the pension scheme has moved into surplus on an IAS19 basis of £7.5m (2017: £0.6m deficit). The Group is working to achieve further improvements over the medium term.

Underlying operating activities generated cash of £56.9m (2017: £47.1m), split between continuing £44.7m (2017: £41.6m) and discontinued £12.2m (2017: £5.5m). The Salisbury incident adversely impacted operating cash flow by c£10m. Continuing cash conversion was 89% of continuing underlying EBITDA showing focus on working capital improvements is delivering in other areas of the business.

In November 2017, the Group repaid £5.3m and $61.2m of outstanding loan notes out of existing cash resources and debt facilities. The remaining loan notes of $83.6m are repayable in November 2019 and this payment is expected to be funded from our new revolving credit facility which runs to October 2022.

Working capital

Working capital relating to the continuing businesses was £83.7m (2017: £89.0m), a decrease of £5.3m. Working capital as a percentage of continuing revenue has improved 0.9% to 28.1% (2017: 29.0%).

Inventory decreased as improved inventory management across the continuing businesses was offset by the impact of the incident at our UK Countermeasures site where inventory at year-end exceeded our plan as a result of the site closure and subsequent inability to complete and fulfill planned orders in the year for which materials had been procured.

Trade receivables decreased by £3m and trade payables decreased by £4m as a result of the timing of activity in the final quarter of the year.

Debt facilities

The Group's principal debt facilities comprised $83.6m of private placement loan notes, a £90.0m revolving credit facility and a $10.0m overdraft. The revolving credit facility was established in October 2018, is with a syndicate of four banks and has a four-year initial term with options to extend by a further two years. The Group had £68.1m (2017: £106.0m) of undrawn borrowing facilities at the year-end. The Group is subject to two key financial covenants, which are tested quarterly. These covenants relate to the leverage ratio between underlying EBITDA and debt; and the interest cover ratio between underlying EBITDA and finance costs. The calculation of these ratios involves the translation of non-Sterling denominated debt using average, rather than closing, rates of exchange. The revolving credit facility and the loan notes have differing covenant compliance calculations. The Group was in compliance with the covenants throughout the year.

Retirement benefit obligations

The surplus on the Group's defined benefit pension schemes was £7.5m (2017: deficit of £0.6m), 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 31 October 2018, using the projected unit credit method. This valuation showed a surplus of £7.5m (2017: £0.6m deficit). The improvement reflects the funding structure agreed with the trustees, under which contributions of £7.9m were paid in 2018, together with the effect of changes in actuarial assumptions.

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

The next actuarial valuation is due as at 6 April 2021 after which the future funding requirements will be reassessed.

Contingent liabilities

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

In addition the following matters, as previously disclosed in last year's annual report and subsequent announcements, remained open at year-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 12.

Dividends

The Board is recommending a final dividend in respect of the year to 31 October 2018 of 2.2p (2017: 2.0p) per ordinary share. With the interim dividend of 1.1p per share (2017: 1.0p), this results in a total dividend of 3.3p (2017: 3.0p) per share.

If approved, the final dividend will be paid on 18 April 2019 to shareholders on the register on 5 April 2019. In accordance with accounting standards, this final dividend has not been recorded as a liability as at 31 October 2018.

Board of Directors

Michael Ord was appointed to the Board on 1 June 2018, and was appointed as Group Chief Executive on 1 July 2018, following Michael Flowers' retirement. Michael Ord joined Chemring from BAE Systems, where he held a number of senior roles across air, land and sea domains, including Managing Director of the BAE Systems Naval Ships business and Managing Director of the BAE Systems F-35 Joint Strike Fighter business. Michael Flowers stepped down from the Board of Chemring on 30 June 2018, and left the Group on 31 October 2018.

On 8 August 2018, Daniel Dayan gave notice of his intention to step down from the Board of Chemring, where he served as a Non-Executive Director and Chairman of the Group's Remuneration Committee. He formally stepped down from the Board on 30 November 2018.

Andrew Davies, Non-Executive Director of Chemring, assumed the role of Chairman of the Remuneration Committee on 8 August 2018.

On 1 December 2018 Stephen King was appointed as a Non-Executive Director.

Current trading and outlook

Trading since the start of the current financial year has been in line with expectations across all businesses.

The current phased restart plan for the UK Countermeasures site has operations commencing in the second quarter and revenue generated in the second half of 2019 financial year. This remains subject to internal and external health and safety approval and as such remains a significant uncertainty.

While we continue to work towards a more balanced delivery of revenue and profit, the operational disruption at our Countermeasures sites in Salisbury and Australia, the expected profile of orders, revenue and margins in 2019, combined with routine seasonality within the business, means that the Group again expects its trading performance to be significantly weighted towards the second half of the financial year.

The order book of continuing businesses as at 31 October 2018 was £394m, of which £242m is currently expected to be recognised as revenue in 2019.

The Board's expectations for the Group's 2019 performance from continuing operations remain unchanged, based on the assumption that insurance proceeds will cover remediation and operating costs at the UK Countermeasures site in the period before production is re-established.

The Board is focused on restructuring, simplifying and building a stronger business. With high technology products and market leading positions Chemring has the platforms for long-term future growth.

Going concern

The Group's business activities, key performance indicators, and principal risks and uncertainties are described within the 2018 Annual Report and Accounts. As part of a 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 2020, 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 economic conditions in the defence market, particularly in relation to government budgets and spends;
- the timing of delivering key contracts;
- the impact of macro-economic factors, particularly interest rates and foreign exchange rates;
- the status of the Group's existing financial arrangements and associated covenant requirements; and
- the availability of mitigating actions should business activities fall behind current expectations, including the deferral of discretionary overheads and restricting cash flows.

Additional detailed sensitivity analysis has been performed on the forecasts to consider the impact of severe, but plausible, reasonable worse 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 and new product launches. These sensitised scenarios show headroom on all covenant test dates for the foreseeable future.

The directors have acknowledged the latest guidance on going concern. They have made appropriate enquiries and taken into account factors which are detailed in the strategic report within the 2018 Annual Report and Accounts. As a consequence, the directors believe that the Company is well placed to manage its risks.

The directors having considered the forecasts, the risks, and associated mitigating actions, have a reasonable expectation that adequate financial resources will continue to be available for the foreseeable future.

Thus, they continue to support the going concern basis in preparing the financial statements.

Long-term viability statement

The directors have assessed the Group's viability over a three-year period to October 2021 based on the above assessment, combined with the Group's strategic planning process, which gives greater certainty

over the forecasting assumptions used. Based on this assessment the directors have a reasonable expectation that the Group will be able to continue in operation and meet all its liabilities as they fall due up to October 2021.

In considering our viability statements we have considered the principal risks and uncertainties discussed below and assessed the impact.

Sensitivity analyses were run to model the financial and operational impact of plausible downside scenarios of these risk events occurring individually or in combination. These included the impacts of a further deterioration in the macroeconomic environment, underperformance in executing the Group's strategy, failure to derive targeted benefits from the Group's Operational Excellence Programme, material movements in foreign exchange rates and a change in regulations impacting the Group's internal financing structure. Consideration was also given to the plausibility of the occurrence of other individual events that in their own right could have a material impact on the Group's viability.

Based on the consolidated financial impact of the sensitivity analyses and associated mitigating internal controls and risk management actions that are either now in place or could be implemented, the Board has been able to conclude that the Group will be able to maintain sufficient bank facilities to meet its funding needs over the three year period.

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 2017 Annual Report and Accounts and the 2018 interim report. A detailed description of the Group's principal risks and uncertainties and the ways they are mitigated can be found on pages 34 to 41 of the Group's 2018 Annual Report and Accounts. In summary, the principal risks relate to:

- Health, safety, security and environmental risks
- Strategic risks
- Financial risks
- Operational risks
- People risks
- Legal and compliance risks
- Reputational risks

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

RESPONSIBILITY STATEMENT OF THE DIRECTORS ON THE ANNUAL REPORT AND ACCOUNTS

The responsibility statement below has been prepared in connection with the Company's full annual report and accounts for the year ended 31 October 2018. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
2. the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
3. the annual report and financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of directors on 17 January 2019, and has been signed on its behalf by Sarah Ellard and Andrew Lewis.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 October 2018

	2018			2017		
	Underlying performance* £m	**Non-underlying items* £m**	**Total £m**	Underlying performance* £m	Non-underlying items* £m	Total £m
Continuing operations						
Revenue	**297.4**	**-**	**297.4**	307.1	-	307.1
Operating profit/(loss)	**31.0**	**(46.9)**	**(15.9)**	31.5	(26.9)	4.6
Finance expense	**(6.1)**	**-**	**(6.1)**	(11.3)	-	(11.3)
Profit/(loss) before tax	**24.9**	**(46.9)**	**(22.0)**	20.2	(26.9)	(6.7)
Taxation	**(5.7)**	**(13.1)**	**(18.8)**	(3.7)	6.1	2.4
Profit/(loss) after tax	**19.2**	**(60.0)**	**(40.8)**	16.5	(20.8)	(4.3)
Discontinued operations						
Profit/(loss) after tax from discontinued operations (note 4)	**6.2**	**(71.2)**	**(65.0)**	19.5	(8.6)	10.9
Profit/(loss) after tax	**25.4**	**(131.2)**	**(105.8)**	36.0	(29.4)	6.6
Earnings/(loss) per ordinary share						
Continuing operations						
Basic	**6.9p**		**(14.6)p**	5.9p		(1.5)p
Diluted	**6.7p**		**(14.6)p**	5.8p		(1.5)p
Continuing operations and discontinued operations						
Basic	**9.1p**		**(37.8)p**	12.9p		2.4p
Diluted	**8.9p**		**(37.8)p**	12.6p		2.3p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 October 2018

	2018	2017
	£m	£m
(Loss)/profit after tax attributable to equity holders of the parent as reported	**(105.8)**	6.6
Items that will not be reclassified subsequently to profit or loss		
Actuarial gains on defined benefit pension schemes	**0.9**	11.9
Movement on deferred tax relating to pension schemes	**(0.1)**	(2.0)
	0.8	9.9
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**5.2**	(11.6)
Current tax on items taken directly to equity	**-**	(3.1)
Deferred tax on exchange differences on translation of foreign operations	**(0.5)**	0.8
	4.7	(13.9)
Total comprehensive (loss)/income attributable to equity holders of the parent	**(100.3)**	2.6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 October 2018

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

	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 2016	2.8	305.1	12.9	1.1	(20.7)	121.8	(9.6)	413.4
Impact of IFRS15	-	-	-	-	-	(10.2)	-	(10.2)
Profit after tax	-	-	-	-	-	6.6	-	6.6
Other comprehensive (loss)/income	-	-	-	-	(4.1)	4.4	-	0.3
Tax relating to components of other comprehensive income	-	-	-	-	-	(4.3)	-	(4.3)
Total comprehensive income	-	-	-	-	(4.1)	6.7	-	2.6
Ordinary shares issued	-	0.2	-	-	-	-	-	0.2
Share-based payments (net of settlement)	-	-	-	-	-	1.6	-	1.6
Dividends paid	-	-	-	-	-	(6.4)	-	(6.4)
At 31 October 2017	2.8	305.3	12.9	1.1	(24.8)	113.5	(9.6)	401.2

CONSOLIDATED BALANCE SHEET
as at 31 October 2018

		2018		2017
	£m	**£m**	£m	£m
Non-current assets				
Goodwill	**109.2**		125.4	
Development costs	**24.0**		33.7	
Other intangible assets	**37.6**		57.0	
Property, plant and equipment	**148.1**		160.1	
Retirement benefit surplus	**7.5**		-	
Deferred tax	**36.8**		63.2	
		363.2		439.4
Current assets				
Inventories	**71.4**		97.6	
Trade and other receivables	**62.2**		131.0	
Cash and cash equivalents	**9.6**		33.6	
Derivative financial instruments	**0.1**		0.4	
		143.3		262.6
Assets classified as held for sale		**43.7**		-
Total assets		**550.2**		702.0
Current liabilities				
Borrowings	**-**		(51.6)	
Trade and other payables	**(68.6)**		(111.9)	
Provisions	**(6.7)**		(6.5)	
Current tax	**(0.8)**		(5.5)	
Derivative financial instruments	**(0.3)**		(0.4)	
		(76.4)		(175.9)
Liabilities directly associated with assets classified as held for sale		**(26.9)**		-
Non-current liabilities				
Borrowings	**(91.3)**		(61.9)	
Provisions	**(14.0)**		(8.8)	
Deferred tax	**(47.1)**		(53.5)	
Preference shares	**(0.1)**		(0.1)	
Retirement benefit obligations	**-**		(0.6)	
Derivative financial instruments	**(0.2)**		-	
		(152.7)		(124.9)
Total liabilities		**(256.0)**		(300.8)
Net assets		**294.2**		401.2
Equity				
Share capital		**2.8**		2.8
Share premium account		**305.4**		305.3
Special capital reserve		**12.9**		12.9
Revaluation reserve		**1.0**		1.1
Translation reserve		**(27.2)**		(24.8)
Retained earnings		**7.1**		113.5
		302.0		410.8
Own shares		**(7.8)**		(9.6)
Total equity		**294.2**		401.2

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 October 2018

	2018	2017
	£m	£m
Cash flows from operating activities		
Cash generated from continuing underlying operations	**44.7**	41.6
Cash generated from discontinued underlying operations	**12.2**	5.5
Cash impact of non-underlying items	**(7.6)**	(6.3)
Cash flows from operating activities	**49.3**	40.8
Retirement benefit deficit recovery contributions	**(7.9)**	(5.0)
Tax paid	**(5.5)**	(3.6)
Net cash inflow from operating activities	**35.9**	32.2
Cash flows from investing activities		
Purchases of intangible assets	**(3.2)**	(3.9)
Purchases of property, plant and equipment	**(18.8)**	(12.6)
Acquisition – deferred consideration	**(0.7)**	-
Customer funding for capital programmes	**2.6**	-
Proceeds on disposal of property, plant and equipment	**0.4**	-
Net cash outflow from investing activities	**(19.7)**	(16.5)
Cash flows from financing activities		
Dividends paid	**(8.7)**	(6.4)
Finance expense paid	**(6.0)**	(9.3)
Capitalised facility fees paid	**(0.6)**	(0.5)
Drawdown of borrowings	**26.5**	-
Repayments of borrowings	**(51.9)**	(28.8)
Repayments of obligations under finance leases	**-**	(0.1)
Net cash outflow from financing activities	**(40.7)**	(45.1)
Decrease in cash and cash equivalents	**(24.5)**	(29.4)
Cash and cash equivalents at beginning of the year	**33.6**	63.1
Effect of foreign exchange rate changes	**0.5**	(0.1)
Cash and cash equivalents at end of the year	**9.6**	33.6

Notes

1. ACCOUNTS AND AUDITOR'S REPORT

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 October 2018 or 31 October 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies, and those for 2018 will be delivered following the Company's Annual General Meeting. The auditors have reported on these accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report, and did not contain any statements required under either section 498(2) or section 498(3) of the Companies Act 2006.

This announcement has been prepared on the basis of the accounting policies set out in the Company's financial statements for the year ended 31 October 2018.

Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards ("IFRSs"), this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to post full financial statements that comply with IFRSs on its website on 18 February 2018 (see note 15 below).

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

i) The following International Financial Reporting Committee ("IFRIC") interpretations, amendments to existing standards and new standards were adopted in the year ended 31 October 2018 but have not materially impacted the reported results or the financial position:

- Amendments to IAS 7 *Statement of Cash Flows*; and
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*.

ii) In the year ended 31 October 2017, the following standard was adopted and has affected the amounts reported in 2017 results:

- IFRS 15 *Revenue from Contracts with Customers* (effective for periods beginning on or after 1 January 2018 with early adoption permitted).

iii) At the date of authorisation of this announcement, the following standards and interpretations that are potentially relevant to the Group and which have not yet been applied in these reported results were in issue but not yet effective (and in some cases had not yet been adopted by the European Union):

Effective for periods beginning on or after 1 January 2018

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

Effective for periods beginning on or after 1 January 2019

- IFRS 16 *Leases;*
- Amendments to IAS 19 *Employee Benefits*;
- Annual Improvements to IFRSs 2015-2017 Cycle; and
- IFRIC 23 *Uncertainty over Income Tax Treatments*

Effective for periods beginning on or after 1 January 2021

- IFRS 17 *Insurance Contracts*

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

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

The impact of IFRS 16 *Leases* is currently being assessed. Under IFRS 16 *Leases*, lessees will be required to apply a single model to recognise a lease liability and asset for all leases, including those classified as operating leases under current accounting standards, unless the underlying asset has a low value or the lease term is 12 months or less. The

adoption of IFRS 16 will have a significant impact on the results as each lease will give rise to a right of use asset which will be depreciated on a straight line basis, and a lease liability with a related interest charge. The depreciation and interest will replace the operating lease payments currently recognised as an expense. The impact will depend on the transition approach and the contracts in effect at the time of the adoption. At 31 October 2018, operating lease commitments were £5.3m and operating lease payments for 2018 were £1.4m.

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The adoption of IFRS 9 *Financial Instruments* from 1 November 2018 is expected to result in changes in accounting policies and adjustments to the amounts recognised in the financial statements, however the overall impact on the financial statements is not expected to be material. In accordance with the transitional provisions in IFRS 9, comparative figures will not be restated.

Trade receivables, contract assets and cash and cash equivalents will now be classified as amortised cost, rather than loans and receivables, however as these assets were accounted for at amortised cost under IAS 39, there is not expected to be a change in the carrying amount.

Trade payables and bank loans and overdrafts continue to be classified as other financial liabilities and accounted for at amortised cost.

Regarding impairment, the Group will apply the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all assets held at amortised cost. The impact of the change in impairment methodology is not expected to be material.

Beyond this information, it is not practicable to provide a reasonable estimate of the effect of these standards.

2. SEGMENTAL ANALYSIS – CONTINUING OPERATIONS

Year ended 31 October 2018

	Countermeasures £m	**Sensors £m**	**Energetics £m**	**Unallocated £m**	**Group £m**
Revenue	**126.0**	**87.3**	**84.1**	**-**	**297.4**
Segment result before depreciation, amortisation, non-underlying items and discontinued operations	**23.6**	**18.5**	**16.0**	**(8.1)**	**50.0**
Depreciation	**(9.7)**	**(1.7)**	**(3.8)**	**(0.1)**	**(15.3)**
Amortisation	**(1.8)**	**(1.5)**	**(0.4)**	**-**	**(3.7)**
Segmental underlying operating profit	**12.1**	**15.3**	**11.8**	**(8.2)**	**31.0**
Amortisation of acquired intangibles	**(0.4)**	**(6.4)**	**(4.8)**	**-**	**(11.6)**
Non-underlying items	**(15.9)**	**(3.7)**	**-**	**(15.7)**	**(35.3)**
Segmental operating (loss)/profit	**(4.2)**	**5.2**	**7.0**	**(23.9)**	**(15.9)**

Year ended 31 October 2017

	Countermeasures £m	Sensors £m	Energetics £m	Unallocated £m	Group £m
Revenue	125.3	91.2	90.6	-	307.1
Segment result before depreciation, amortisation, non-underlying items and discontinued operations	27.5	19.3	18.3	(10.2)	54.9
Depreciation	(10.8)	(1.8)	(3.7)	(0.1)	(16.4)
Amortisation	(2.3)	(4.1)	(0.5)	(0.1)	(7.0)
Segmental underlying operating profit	14.4	13.4	14.1	(10.4)	31.5
Amortisation of acquired intangibles	(0.4)	(6.7)	(5.0)	-	(12.1)
Non-underlying items	(3.6)	(5.7)	(5.6)	0.1	(14.8)
Segmental operating profit	10.4	1.0	3.5	(10.3)	4.6

3. ALTERNATIVE PERFORMANCE MEASURES

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.

	2018 £m	2017 £m
Acquisition and disposal related costs	**(4.1)**	(2.1)
Business restructuring costs	**(8.1)**	(14.0)
Less non-underlying depreciation in business restructuring costs	**0.7**	1.0
Legal costs	**(12.8)**	(0.4)
Change of Chief Executive	**(1.7)**	-
Pension scheme charge in respect of GMP equalisation court ruling	**(0.8)**	-
(Loss)/gain on the movement in the fair value of derivative financial instruments	**(0.4)**	1.7
Impact of non-underlying items on EBITDA	**(27.2)**	(13.8)
Non-underlying depreciation in business restructuring costs	**(0.7)**	(1.0)
Impairment of capitalised development costs	**(7.4)**	-
Intangible amortisation arising from business combinations	**(11.6)**	(12.1)
Impact of non-underlying items on profit before tax	**(46.9)**	(26.9)
Tax impact of non-underlying items	**(13.1)**	6.1
Impact of non-underlying items on continuing profit after tax	**(60.0)**	(20.8)
Discontinued operations after tax	**(71.2)**	(8.6)
Impact of non-underlying items on profit after tax	**(131.2)**	(29.4)
Underlying profit after tax	**25.4**	36.0
Statutory (loss)/profit after tax	**(105.8)**	6.6

- Acquisition and disposal-related costs of £4.1m (2017: £2.1m) relate to transaction costs and an earnout payment on the acquisition of Wallop Defence Systems' assets for which no provision was made at the time of acquisition. Additional payments of up to £4m, although not probable and considered remote, are conditional upon the receipt of specific orders, and may be made over the next year.

- In 2018, business restructuring costs of £8.1m (2017: £14.0m) relate to the non-capital costs / asset write offs and the demolition element of the Tennessee site transformation.

- In 2018, legal costs of £12.8m (2017: £0.4m) were in relation to ongoing investigations. This includes a provision for estimated future committed costs of £5.0m.

- The costs associated with the change of Chief Executive of £1.7m (2017: £nil). Michael Flowers stepped down as Group Chief Executive on 30 June 2018 and Michael Ord was appointed as Group Chief Executive on 1 July 2018.

- On 26 October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded that pension schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. We are working with our actuarial advisers to understand the extent to which judgement crystallises any additional liabilities for the Group UK defined benefit pension scheme. We are early in the evaluation process, but we estimate that the additional liability could be in the region of £0.4m and £1.2m, therefore we have recognised £0.8m in our 2018 results. Subsequent to further assessment with our advisers, any necessary further adjustment is expected to be recognised in the first half of our 2019 financial year.

- Included in non-underlying items is a £0.4m loss (2017: £1.7m gain) on the movement in fair value of derivative financial instruments. This is excluded from underlying earnings to ensure the recognition of the derivative matches the timing of the underlying transaction.

- In 2018, an impairment of capitalised product development of £7.4m (2017: £nil) was recognised following the appointment of a new Chief Executive who conducted a strategic review of the Group's product portfolio to rationalise future resources on areas where the Group had a niche position and competitive advantage.

- The amortisation charge arising from business combinations of £11.6m (2017: £12.1m).

- The tax impact of non-underlying items comprises a £17.4m charge in respect of the enactment of the US Tax Cuts and Jobs Act on 22 December 2017, and a £4.3m tax credit on the above non-underlying items.

4. DISCONTINUED OPERATIONS

A strategic review of the Group's Energetics portfolio was conducted during the year. 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.

	2018 £m	2017 £m
Revenue	**138.6**	240.4
Underlying operating profit from discontinued operations	**8.0**	23.9
Tax on underlying operating profit from discontinued operations	**(1.8)**	(4.4)
	6.2	19.5
Profit after tax is analysed as:		
Before exceptional items	**6.2**	19.5
Exceptional items	**(72.0)**	(9.7)
Tax on exceptional items	**0.8**	1.1
	(71.2)	(8.6)
(Loss)/profit for the year from discontinued operations	**(65.0)**	10.9

In 2018 the exceptional items include the amortisation of acquired intangibles of £2.7m and an impairment loss of £69.3m in respect of the carrying values of Chemring Defence UK Limited, Chemring Ordnance Inc., B.D.L. Systems Limited and Richmond Electronics and Engineering Limited. Amortisation of acquired intangibles arising from business combinations is associated with acquisition costs under IFRS 3 *Business Combinations*. As such, these costs are not reflective of the underlying activities of the discontinued operations and therefore have been treated as exceptional items. Impairment losses have been removed from underlying measures for improved comparability between reporting periods. This is in line with the Group's accounting policy.

In 2017 the exceptional items included a total impairment loss of £9.8m in respect of the Chemring Defence UK business and the amortisation of acquired intangibles of £2.9m, offset by the release of provisions in respect of previously disposed businesses.

5. HELD FOR SALE

The assets held for sale relate to four commodity Energetics businesses: Chemring Defence UK Limited, Chemring Prime Contracts Limited, Chemring Military Products Inc. and Chemring Ordnance Inc.

6. EARNINGS PER SHARE

Earnings per share is based on the average number of shares in issue, excluding own shares held, of 279,768,360 (2017: 279,244,616).

Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 285,993,316 (2017: 285,023,906).

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

	£m	**Basic EPS (pence)**	**2018 Diluted EPS (pence)**	£m	Basic EPS (pence)	2017 Diluted EPS (pence)
Underlying profit after tax	**19.2**	**6.9**	**6.7**	16.5	5.9	5.8
Non-underlying items	**(60.0)**			(20.8)		
Loss from continuing operations	**(40.8)**	**(14.6)**	**(14.6)**	(4.3)	(1.5)	(1.5)
(Loss)/profit from discontinued operations	**(65.0)**	**(23.2)**	**(23.2)**	10.9	3.9	3.8
Total (loss)/profit after tax	**(105.8)**	**(37.8)**	**(37.8)**	6.6	2.4	2.3

The number of shares in issue differs from the number held by third parties as the Company holds some of its shares in treasury.

7. CASH GENERATED FROM OPERATING ACTIVITIES

	2018 £m	2017 £m
Operating (loss)/profit from continuing operations	**(15.9)**	4.6
Amortisation of development costs	**3.6**	6.9
Amortisation of intangible assets arising from business combinations	**11.6**	12.1
Amortisation of patents and licenses	**0.1**	0.1
Loss on disposal of non-current assets	**0.2**	0.2
Depreciation of property, plant and equipment	**15.3**	16.4
Non-cash movement of non-underlying items	**35.3**	15.0
Gain on the fair value of derivative financial instruments	**-**	(0.1)
Share-based payment expense	**1.1**	1.7
Operating cash flows before movements in working capital	**51.3**	56.9
Decrease in inventories	**1.6**	3.5
Decrease/(increase) in trade and other receivables	**0.2**	(11.8)
(Decrease) in trade and other payables	**(8.3)**	(6.9)
(Decrease) in provisions	**(0.1)**	(0.1)
Operating cash flow from continuing operations	**44.7**	41.6
Discontinued operations:		
Operating cash flow from discontinued operations	**12.2**	5.5
Cash impact of non-underlying items from discontinued operations	**(0.1)**	(0.7)
Net cash inflow from discontinued operating activities	**12.1**	4.8
Net cash outflow from discontinued investing activities	**(1.2)**	(2.8)
Net cash inflow from discontinued operations	**10.9**	2.0

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

	2018 **£m**	2017 £m
Decrease in cash and cash equivalents during the year	**(24.5)**	(29.4)
Decrease in debt and lease financing due to cash flows	**26.0**	29.4
Decrease in net debt resulting from cash flows	**1.5**	-
Effect of foreign exchange rate changes	**(2.0)**	10.0
Amortisation of debt finance costs	**(1.3)**	(2.4)
Movement in net debt	**(1.8)**	7.6
Net debt at beginning of the year	**(80.0)**	(87.6)
Net debt at end of the year	**(81.8)**	(80.0)

9. ANALYSIS OF NET DEBT

	As at 1 Nov 2017 £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	**As at 31 Oct 2018 £m**
Cash at bank and in hand	33.6	(24.5)	-	0.5	**9.6**
Debt due within one year	(51.6)	26.0	25.6	-	**-**
Debt due after one year	(61.9)	-	(26.9)	(2.5)	**(91.3)**
Preference shares	(0.1)	-	-	-	**(0.1)**
	(80.0)	**1.5**	**(1.3)**	**(2.0)**	**(81.8)**

10. DIVIDEND

At the Annual General Meeting on 20 March 2018 the shareholders approved a final dividend in respect of the year ended 31 October 2017 of 2.0p per ordinary share. This was paid on 20 April 2018 to shareholders on the register on 6 April 2018.

An interim dividend in respect of 2018 of 1.1p per ordinary share was paid on 14 September 2018 to shareholders on the register on 31 August 2018.

The Board is recommending a final dividend in respect of the year to 31 October 2018 of 2.2p (2017: 2.0p) per ordinary share. With the interim dividend of 1.1p (2017: 1.0p), this results in a total dividend of 3.3p (2017: 3.0p) per ordinary share. If approved, the final dividend will be paid on 18 April 2019 to shareholders on the register on 5 April 2019. In accordance with accounting standards, this final dividend has not been recorded as a liability as at 31 October 2018.

11. EXCHANGE RATES

The following exchange rates applied during the year:

	Average rate 2018	**Closing rate 2018**	Average rate 2017	Closing rate 2017
US Dollar	**1.34**	**1.28**	1.30	1.33
AU Dollar	**1.74**	**1.80**	1.68	1.73

For the year ended 31 October 2018 a 10 cent decrease in the US dollar exchange rate would have increased reported net debt by approximately £5.6m (2017: £8.9m).

12. 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 remain open at year end:

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

Since 2013, the Group has benefited from the UK's Controlled Foreign Company ("CFC") Finance Company exemption. The European Commission has launched an investigation into whether the UK's CFC Finance Company exemption breaches state aid rules. No timescale has been set for the review and this could take several years to conclude. If, at the end of the investigation, the regime is considered to be in contravention of the State Aid provisions, the UK Government will be required to seek repayment of the lost tax from the relevant taxpayers. Given the early stage of the investigation, it is too early to determine whether a tax liability is probable. The range of possible outcomes is between £nil and £15m, plus interest.

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

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

13. EVENTS AFTER THE BALANCE SHEET DATE

There are no post balance sheet events.

14. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed. The directors of the Company had no material transactions with the Company during the year, other than in connection with their service agreements.

15. 2018 ANNUAL REPORT AND ACCOUNTS

The annual report and accounts for the year ended 31 October 2018 will be posted to shareholders on 18 February 2019, and a copy will be posted on the Company's website, www.chemring.co.uk, later that day. They will also be available from that date at the registered office, Roke Manor, Old Salisbury Lane, Romsey, Hampshire, SO51 0ZN.