





“Our focus in recent years has been on putting in place the foundations on which to build a stronger, higher quality business. The resilience of the Group in response to the coronavirus pandemic is a consequence of the dedication and commitment of all our people and clearly demonstrates the significant progress that we have made.

Chemring is well placed, with a robust strategy, market-leading positions across different geographies and sectors, and with products and services that are critical to our government and blue-chip customers. Chemring’s long-term prospects remain strong.”

Michael Ord
Group Chief Executive

Strategic report

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To discover more about Chemring please go to **www.chemring.co.uk**



2020 performance

Financial highlights

Revenue

£402m

(+20%)

Increase in revenue as the countermeasures facilities in Salisbury and Australia were operational, as well as strong performance in the Sensors & Information segment.

Underlying operating profit*

£55m

(+24%)

Reflects revenue growth in both sectors and improving margin in Countermeasures & Energetics, as operational gearing and performance both positively impacted margin.

Order book

£476m

(+6%)

Building in the Countermeasures & Energetics sector in line with strategy. Targeted 2021 revenue from continuing operations approximately 78% covered by orders in hand.

Statutory operating profit

£46m

(+48%)

The difference to underlying operating profit reflects the amortisation of acquired intangible assets which is the only item treated as non-underlying in 2020.

Underlying operating profit (£m)*

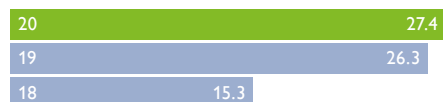
Group

£54.7m



Sensors & Information

£27.4m



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Progress

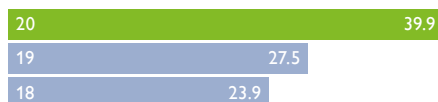
Building a resilient business to ensure solid foundations are in place to deliver medium-term growth opportunities.

Safety

As part of our commitment to continuous improvement, delivering on our three core values: Safety, as paramount, Excellence and Innovation.

Countermeasures & Energetics

£39.9m



Read more on
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2021 outlook

Countermeasures & Energetics order book, opportunities under the US Programs of Record and the strong market for Roke's services all support improving medium-term expectations.

Operational highlights

Key points

- 2020 performance was ahead of the Board's expectations with strong performance in both segments.
- All businesses remained open and operational despite the challenges caused by COVID-19.
- Investment in the Group's manufacturing infrastructure is driving improvements in safety, efficiency and enhancing operational resilience.
- Strong growth in orders and revenue for Roke including strategically important first electronic warfare order for Resolve to the US DoD.
- Good progress made on securing new business in the UK, the US and Australia for the supply of global countermeasures, including the receipt by Chemring Australia of a definitised contract of \$107m in support of the F-35.
- Continued progress on the US Programs of Record. Further orders received in the year for the next phase of HMDS delivery, with the IDIQ increased by \$200m, and customer approval and contract awarded for Low Rate Initial Production for the EMBD programme.
- Sale of Chemring Ordnance, Inc. completed, concluding our strategic exit from commoditised energetics.
- Significant reduction in net debt from strong operational cash generation partially offset by scheduled capital expenditure and the adoption of IFRS 16.
- 2020 dividend up 8% to 3.9p per share.
- Board's expectations for 2021 are unchanged. Approximately 78% of expected 2021 revenue is covered by the order book (2019: 76%).

* References to underlying operating profit and earnings per share throughout this strategic report are to underlying measures from continuing operations; see note 3 for a reconciliation to the statutory profit after tax from both continuing and discontinued operations of £34.7m (2019: £21.9m).



What we do

Innovation and technology is at our core

At Chemring we create market-leading, technology solutions and develop world-class thinking to solve the most challenging problems.

Using our extensive science and engineering expertise, we turn ideas into reality, designing and developing critical solutions that protect and safeguard in an uncertain world.

We achieve this by innovating at every stage of the value chain, from research and development,

through to design, manufacture and in-service support for our sensors and detection systems, countermeasures and energetic products.

Our customer base spans national defence organisations and security agencies, as well as commercial markets such as space and transport. We support our customers in more than 50 countries across the globe.

Chemring is organised into two sectors – Sensors & Information and Countermeasures & Energetics.

Where we operate

Our home markets in the UK, the US, Australia and Norway represent some of the most demanding users in the world, with well-funded militaries and international credibility, which helps support export sales. The percentages represent the proportion of sales for that destination in the year ended 31 October 2020.

UK

30%

In the UK we are seeing growing customer demand for our cyber and information security solutions in national security, defence and, to an increasing extent, industrial sectors.

Asia Pacific

6%

Steady year-on-year growth in key regional markets as defence spending increases in response to increased threats. Our Australian business enables us to maintain, support and evolve next-generation capabilities for the Australian and regional customers.

US

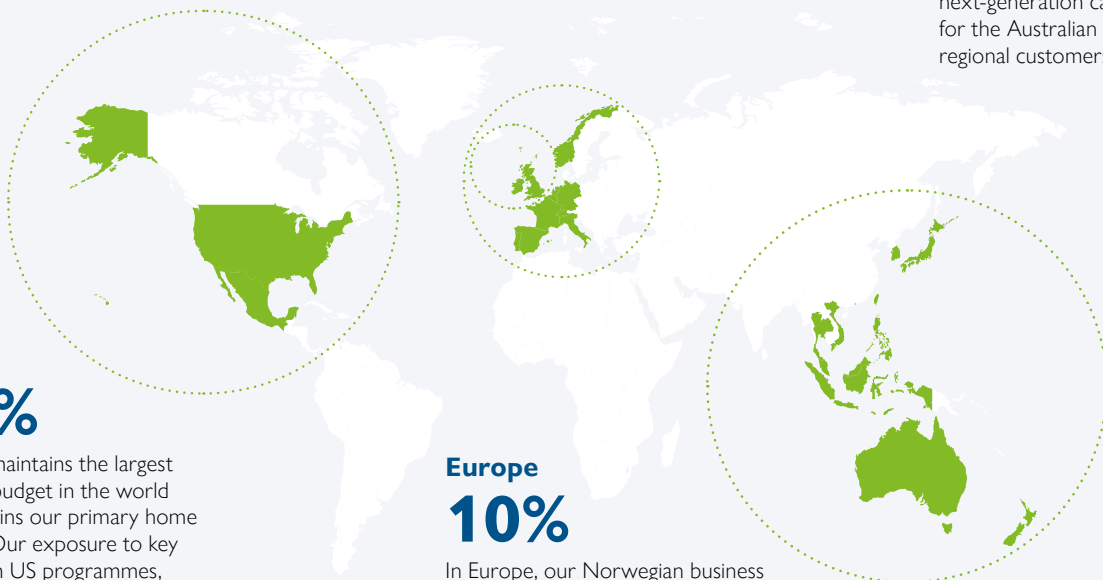
54%

The US maintains the largest defence budget in the world and remains our primary home market. Our exposure to key long-term US programmes, particularly in the Sensors & Information sector but also in Countermeasures & Energetics, gives us good visibility for future earnings.

Europe

10%

In Europe, our Norwegian business continues to have a strong order book for its niche products and has long-term supply agreements with key customers, providing good future visibility.





Sensors & Information

Innovation is core to solving our clients' difficult problems.

Our Roke business draws on a 60-year heritage of innovation in sensors, communications, cyber and artificial intelligence to innovate and apply these technologies in new ways.

Operating across defence, national security and industrial domains, we enable our clients to deliver competitive advantage, defend their people, assets and information, and defeat their adversaries.

With over 500 scientists, engineers and consultants, our Sensors & Information sector continues to invest in technologies that safeguard and protect in an uncertain world.

Our sensor technologies detect threats with a very high degree of confidence, be they explosive, biological, chemical, radio or cyber.

We operate across the whole lifecycle providing advice, research and development, engineering, design and in-service support for our products and services.

Revenue

£137.2m

(2019: £131.9m)

Underlying operating profit

£27.4m

(2019: £26.3m)

20	27.4
19	26.3
18	15.3



Countermeasures & Energetics

Chemring is the world leader in the design, development and manufacture of advanced expendable countermeasures for protecting air and sea platforms against the growing threat of guided missiles.

We combine a deep understanding of platform signatures, missile seekers and chemical formulations to develop new countermeasures against evolving threats.

Our niche, world-class energetics portfolio provides high-reliability, single-use devices that perform critical functions for the space, aerospace, defence and industrial markets.

Every day, our products, services and experts assist customers, including NASA, to launch rockets into orbit, provide cutting-edge raw materials to meet unique client requirements, and provide vital aircraft safety systems, including actuators to release oxygen masks and ejector seats for aircrew egress.

Revenue

£265.3m

(2019: £203.3m)

Underlying operating profit

£39.9m

(2019: £27.5m)

20	39.9
19	27.5
18	23.9



Investing in sustainable performance and growth

In the last two years Chemring has been restructured and repositioned for future growth.

A significant proportion of the Group's safety procedures, management teams and corporate governance has been strengthened, and during the year, Chemring completed the process of exiting the commoditised energetics market. In doing so, we have retired significant operational and reputational risk.

These actions have been enhanced by a focus on embedding a culture of safety and continuous improvement across the Group.

Chemring now has a clearly defined strategy, which will deliver significant value for our shareholders. In particular, the Board believes that the Group has attractive market-leading positions on a number of global defence programmes, which provide opportunities for future growth in revenues, profit and cash flows. These include:



Well positioned in niche segments

Against the background of stable and growing defence budgets, particularly in the US, Chemring is well positioned in niche segments of the defence market which have the opportunity to outperform the broader sector over the next few years. These include the Group's global market-leading positions on mission-critical airborne and naval countermeasures, advanced sensors and software engineering.



Exposure to major international programmes

Chemring is exposed to a substantial pipeline of major international programmes that have the potential to deliver strong long-term growth. These include being a qualified source for the F-35 Joint Strike Fighter countermeasure programme, as well as having technologies and products to address the next-generation US programmes in explosive hazard detection, biological detection and chemical detection.



Strong growth in Roke's national security and defence markets

Roke's consulting, technology and R&D service activities are experiencing strong growth, driven principally by information security for the national security and defence markets. There are a growing number of opportunities for our electronic warfare products in the international market, as well as the opportunity to leverage Roke's intellectual property in the industrial sector.



Proven management with momentum

Chemring's executive management team has significant sector experience, with a proven track record of business restructuring, strategic investment and the delivery of profitable growth. In the last two years Chemring has been restructured, the portfolio reshaped and significant investment has been made in the modernisation and automation of our facilities. These actions provide strong foundations for future growth and margin growth.

We are a business that relentlessly innovates to protect its customers



Balance sheet strength

Chemring has a robust balance sheet and strong ongoing operating cash generation, providing a platform for future investment in the business and sustainable dividend payments.



Pipeline of attractive opportunities

The Group's strong order book provides good medium-term visibility. A significant proportion of our revenue is generated from sole or dual source positions, often from long-term partnering agreements. Market-leading positions, incumbent supplier status and high barriers to entry position Chemring well for the future.

Market-leading niche positions in both sectors

Growing order book

Significant organic revenue growth potential

Improving operating margins

Strong operating cash generation

Sustainable and growing dividend

Improving quality and value creation



Resilient in the face of uncertainty

COVID-19 (“CV-19”) represents an unprecedented challenge across the globe. Our ability to respond to the challenge was fostered through an approach of pro-active monitoring and implementing proportional measures as the crisis evolved. As such we have been able to protect and safeguard our people and maintain operations in support of our customers.



Safeguarding health, safety and wellbeing

Our first priority throughout this crisis has been the health, safety and wellbeing of our people, their families, our customers and the communities in which we operate. From the outset we adopted an agile approach which balanced risk mitigation with business continuity and which was based on the latest government recommendations in each of our home markets.

We have continued to monitor the situation closely, responding to the crisis as it has evolved, providing our people with timely guidance and support to maintain their wellbeing and ensuring that we take appropriate action as required.

The response of our people has been outstanding. They have risen to the challenge, adapting their behaviour and working practices in order to minimise the spread of the virus, whilst continuing to focus on the needs of our customers.

Maintaining operations and business continuity

As a company we recognise our essential contribution to the ongoing defence and national security missions of our customers. Our business continuity plans were therefore enacted at all our sites and, where necessary, we adapted our working practices and environments to minimise the risk of spreading the virus. This included the implementation of social distancing and home working, and, where this was not possible, the use of enhanced PPE to further minimise any potential risk.

In the US, the UK and Norway, Chemring's operations were designated as critical to the defence and national security industrial base, and in Australia the risk of business interruption was considered to be low. All our businesses have therefore remained open throughout the pandemic. We continue to make every effort to maintain delivery of essential services and manufacturing production in support of our customers.

One significant risk to our operations was associated with the ability of our customers to test and accept goods. Our manufacturing businesses have worked closely with their customer representatives to deliver timely testing and acceptance of products. In the first half of the year we worked through some CV-19 related disruptions where customer representatives were not able to complete product acceptance procedures on a timely basis. This persisted in the second half of the year, resulting in some short-term revenue deferrals, although this did not impact the Group at year end.

CV-19 timeline at Chemring

30 January 2020

WHO declares Public Health Emergency of International Concern

4 March 2020

AGM trading update – no current impact to businesses or supply chains but monitoring closely

11 March 2020

WHO declares CV-19 global pandemic

3–29 February 2020

Daily monitoring of global cases begins, all travel moved to high risk and attendance at mass events restricted

w/c 9 March 2020

Crisis Management Team established and business continuity plans enacted. Group-wide changes to working arrangements, social distancing and self-quarantine developed; ban on international travel, mass events and external visitors

w/c 16 March 2020

Group guidance on social distancing, cleaning, personal hygiene, travel, visitors and alternative working arrangements implemented; weekly senior leadership video call convened and CEO weekly video blogs to all employees commenced

**Our values in action****Adapting to CV-19**

Adapting our business to COVID-secure requirements ensured our operations continued throughout the pandemic. Our colleagues remain resilient; whether through socially distanced team briefings outdoors, the installation of hygiene stations in our offices or clear signage for safety reminders, all our Chemring sites have risen to the challenge.

Protecting our financial position

Given the uncertainty surrounding the length of the CV-19 pandemic, the Group has taken various actions to protect profitability and to conserve cash. Operational expenditure has been reduced and all discretionary spending is tightly controlled as we seek to ensure the Group is well placed to navigate the current challenges. The already-established enhanced focus on working capital management, in particular the reduction of intra-period net debt volatility, is proving beneficial and the Group is focusing on ensuring that working capital disciplines are maintained in these challenging times.

In response to the CV-19 pandemic and the risk of business disruption, the Group took the precautionary measure of obtaining an additional short-term debt facility of £100m to further strengthen the Group's liquidity position. £50m of this facility was drawn in April 2020 and was repaid in full in October 2020, having not been required.

Conclusion of financial stress tests

We carried out a number of financial stress tests, further details of which are included in the viability statement. The conclusion was that the Group could withstand a greater than 50% decline in operations for six months without the need to renegotiate bank facilities or covenants.

Managing our stakeholders

Throughout the pandemic we have recognised that its impact will be felt by all our stakeholders. We have therefore endeavoured to support and inform them through early and regular engagement.

Employees

Our first priority has been to safeguard the health and wellbeing of our employees. At every stage we have sought to provide them with timely guidance and support in order to maintain their wellbeing and minimise the risk of exposure.

Customers

We have actively worked with our customer base to ensure the delivery of timely testing and acceptance of products. At times, this has required innovative solutions including virtual product inspections. In turn, we are grateful to our customers for their flexibility and support and the designation of our operations as critical to the defence and national security industrial base.

Shareholders

We have proactively engaged with our shareholders, providing them with regular market updates and participating in numerous investor calls and virtual investor roadshows. We also published on our website a pre-recorded video of our interim financial results in lieu of our normal presentation to analysts and investors.

Suppliers

Chemring enjoys strong relationships with our suppliers and we have worked closely with them throughout the crisis. We have had no significant supply chain issues to date and are grateful to our many suppliers for the support that they have given us.



[Read more on our stakeholders](#)
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24 March 2020

Our response to CV-19 press release published on website

14 April 2020

CV-19 update announcement issued to the markets

June 2020

Chemring Nobel moves from Phase 1 to Phase 2 transition with easing of some controls

3 June 2020

Interim results announced and virtual investor roadshow commenced

1 April–30 May 2020

Focus on wellbeing and securing supply chains; stable routine of the new normal established and CV-19 Playbook developed including all controls (subject to government guidance) to protect people and business continuity

May 2020

Three-phase change control process established: Safeguard-Transition-Emerge; all businesses in Phase 1 with stringent controls

3 June to present

Control framework embedded to provide continual monitoring and adjustments to risk controls



Building on strong foundations

In a year that presented extraordinary challenges to us all, I am pleased to report on the progress that the Group has made during 2020. Two years ago we put in place a roadmap to deliver long-term growth and a more sustainable business model. The significant progress that we have made in building a stronger, more resilient business has been demonstrated in the way in which the Group has reacted as the CV-19 pandemic has developed across the globe.



“In recent years, significant focus has been placed on building a safe and resilient business that is able to deliver margin progression through continuous improvement in operational performance and execution. We shall continue to invest in both our people and infrastructure in order to deliver sustainable growth into the future.”

Carl-Peter Forster
Chairman

Building on strong foundations

At the heart of our CV-19 response has been the need to protect our people whilst maintaining our operations in support of the critical needs of our customers. In the face of adversity, the response of our people, at every level, has been outstanding. They have risen to the challenge, adapting their behaviour and working practices in order to minimise the spread of the virus.

In maintaining our operations and with careful financial management, I am pleased to report that all our sites have remained open and we have been able to protect jobs and livelihoods.

Despite the changing and challenging environment in which we have been operating, the Group delivered a strong performance that was ahead of our expectations. On behalf of the Board I would like to acknowledge the commitment and professionalism that our colleagues have demonstrated, and thank them and their families for their support.

Purpose and strategy

Chemring's purpose is innovating to protect people, platforms, missions and information from constantly changing threats.

We achieve this through innovation, using our extensive science and advanced engineering expertise to design, develop and manufacture critical solutions that protect and safeguard in an uncertain world.

The Group's strategy is to deliver profitable growth by operating in markets where we have differentiators such as intellectual property, niche technology, high barriers to entry and deep long-term customer relationships.

On 7 May 2020 Chemring announced that we had completed the sale of Chemring Ordnance Inc. for \$17m, and with it our strategic exit from the commoditised energetics market. This has reduced the Group's exposure to significant reputational and operational risk, and enables greater focus on our growing and differentiated positions in Sensors & Information and Countermeasures & Energetics where we are already a market leader.

Our values

Our values form the foundation of our organisation and our strategy.



Safety

We place safety at the heart of everything we do.



Excellence

We are focused on ensuring we consistently meet high standards in all that we do.



Innovation

We create world-class solutions and develop world-class thinking.

Our values in action



CFA donation (Australia)

The Country Fire Authority ("CFA") supports our Australian facility in its emergency readiness and management approach, staff training, and risk assessment and permitting of on-site activities. The local CFA has been the first responder to assist at on and off-site events with the potential to impact ongoing operations.

During 2020 Chemring took the opportunity to give back. Chemring Australia donated \$25,000 towards the CFA's Ultra-Light Tanker Fund. This fund will allow the Lara CFA to purchase a manoeuvrable vehicle that can respond in areas that are not readily accessible to larger tankers. This is an important capability that the CFA will deploy in the protection of our local community.

We are delighted to support the continued efficient and effective operations of the CFA, noting the exceptional work the organisation does throughout the Lara region and across the state of Victoria.



Purpose and strategy continued

We will maintain and grow our positions in Countermeasures & Energetics, investing in modernisation and automation to improve operational effectiveness and reliability and increase capacity. In Sensors & Information our focus is on expanding the Group's product, service and capability offerings in the areas of tactical electronic warfare and cyber-security, and in building a technology-based strategy for growth beyond current US DoD Programs of Record.

We will continually review the portfolio, to ensure that we maintain sustainable niche positions where technical and qualification barriers to entry support our medium-term ambition of generating mid-to-high teen margins at a sector level. As a Board we remain open to acquisition opportunities but only if they meet a strict set of criteria, enhance shareholder value and fit in with our wider growth plans. To date, we have reviewed and declined to proceed with a number of possible transactions.

In recent years, significant focus has been placed on building a safe and resilient business that is able to deliver margin progression through continuous improvement in operational performance and execution. We shall continue to invest in both our people and our infrastructure in order to deliver sustainable growth into the future.



[Read more on our strategy](#)
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Health, safety and the environment

The Board recognises that the highest levels of safety are required in order to protect employees, product users and the general public. The Board believes that all incidents and injuries are preventable, and that all employees have the right to expect to return home safely at the end of every working day.

Safety is therefore at the core of our operating philosophy and the basis of our safety culture that is felt throughout the business. As a Board we continue to maintain a healthy sense of unease that challenges the way we operate and seeks ways to reduce the risk of harm to our people. In our commitment to zero harm we continue to invest in our people, plant and processes so that our people can operate safely in a factory environment and with processes that are designed and maintained to reduce employees' exposure to hazardous situations.

Our goal of zero harm goes beyond the management of safety and recognises our impact on the environment. All Chemring businesses have local environmental systems aligned with international standards and have undertaken local initiatives and programmes to reduce energy and waste. As our sustainability agenda evolves, we have taken a more centralised approach to assessing and managing our environmental performance. This year we established the Environmental Committee with responsibility for advising on the strategic environmental direction of Chemring. Further details on this can be found in the Sustainability section of this report.



[Read more on our health, safety and the environment](#)
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People and our community

Our people are our greatest asset. It is through them that we will progress our strategy and deliver long-term growth. Having spent time with colleagues at every level across the business, the Board is continually impressed with the experience, talent and passion that they demonstrate.

Ensuring that our people are motivated and feel valued remains a key area of focus for the Board. In 2020 the Group maintained its efforts on continuous development, engagement and the wellbeing of our people. Investing in our people and our infrastructure is key to improving the quality of the business.

The Development Framework that was launched in the autumn of 2019, which focuses on the development of management, leadership and technical skills at all levels across the business, has delivered a number of key initiatives in the year.

During 2020 every colleague whose role includes being a first line manager or supervisor has commenced participation in our new development programme. There are over 340 participants who between them directly manage around 85% of the total population of the organisation.

The first Early Careers Conference for UK and Norwegian graduate and apprentice colleagues provided the opportunity for face-to-face networking, interaction with senior leaders and development workshops. Sadly, the corresponding event that was scheduled in the US did not take place as a result of CV-19. Our Early Careers Programme will continue to evolve and has already led to a record number of apprentices joining Chemring in 2020.



Chairman's statement continued

People and our community continued

During the year, Laurie Bowen, as the non-executive director with responsibility for employee engagement on behalf of the Board and as Chairman of the Remuneration Committee, met with groups of colleagues from different business areas and at different levels in the organisation to hear directly from them their views on working at Chemring, as well as sharing the work of the Board. These groups included previous participants in the Emerging Leaders Programme, line managers and supervisors, and a business unit leadership team. These groups were chosen to complement the work done previously by Andrew Davies, another non-executive director, in 2019 when he met with groups of operators from around the businesses.

On behalf of the Board I thank all employees for their high level of commitment and enthusiasm which has been particularly impressive given the challenges faced as a result of CV-19.



[Read more on our people and our community](#)
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Governance and ethics

During the last two years we have taken significant steps to ensure that we have in place the necessary policies and procedures across the business to operate with integrity and transparency and to the highest ethical standards. This has been coupled with a focus on creating an inclusive culture across the Group where everyone does the right thing and takes responsibility for their actions.

The bedrock of our governance is the Operational Framework and the Code of Conduct, both of which bind our values, behaviour, policies and procedures, and provide the necessary governance to enable us to operate in a safe, consistent and accountable way.

We have maintained our focus in this area during 2020 and have implemented further processes through which to manage our exposure to potential risks. There were two notable developments during the year. The first was the formation of a new Ethics & Compliance Committee. This committee, which meets regularly throughout the year and is chaired by me, has responsibility for the oversight and monitoring of Chemring's ethical business conduct and compliance. The second was the appointment of a Security and Corporate Facility Security Officer in the US with responsibility for ensuring that at all times we operate in full compliance with our Special Security Agreement with the US Government.

Good governance and ethical behaviour underpin our evolving sustainability agenda and ensures that we operate safely, responsibly and in compliance with current legislation in all our jurisdictions.

Dividends

The Board is recommending a final dividend in respect of the year ended 31 October 2020 of 2.6p (2019: 2.4p) per ordinary share. With the interim dividend of 1.3p per share (2019: 1.2p), this results in a total dividend of 3.9p (2019: 3.6p) per share.

If approved, the final dividend will be paid on 23 April 2021 to shareholders on the register on 6 April 2021. In accordance with accounting standards, this final dividend has not been recorded as a liability as at 31 October 2020.

Board of directors

On 16 December 2019, we announced that Nigel Young had indicated his intention to retire as a non-executive director when his current appointment came to an end and Nigel therefore stood down from the Board on 30 April 2020. Nigel served as a non-executive director from 1 May 2013 and was the Senior Independent Director from March 2016. During his tenure the Group progressed through a period of significant transformation and the Group is extremely grateful for his guidance and commitment. Nigel's role as Senior Independent Director was assumed by Andrew Davies on 1 May 2020.

Laurie Bowen, non-executive director, assumed the role of Chairman of the Remuneration Committee on 4 March 2020.

With the appointment of Fiona MacAulay as a non-executive director on 3 June 2020 we were able to add to our Board, amongst other attributes, significant experience in operating safely in hazardous environments.

Current trading and outlook

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

The Board's expectations for the Group's 2021 performance remain unchanged.

A great deal of work has been done in recent years to produce a more balanced delivery of revenue and profit across the year. The Group expects the balance of its trading performance in 2021 to be similar to 2020 with a slight bias towards the second half of the financial year.

The Group order book as at 31 October 2020 was £476.0m, of which £326m is currently expected to be recognised as revenue in 2021, giving excellent visibility for the full year.

In the longer term, Chemring is well placed, with a robust strategy, market-leading positions across different geographies and sectors, and 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 CV-19 related uncertainty, Chemring's long-term prospects remain strong.

Carl-Peter Forster

Chairman

15 December 2020



Delivering against our strategy

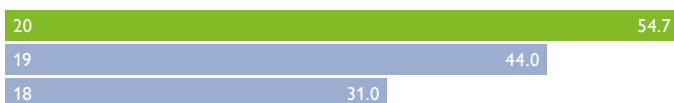
Our focus in recent years has been on putting in place the foundations on which to build a stronger, higher quality business. The resilience of the Group in response to the coronavirus pandemic is a consequence of the dedication and commitment of all our people and clearly demonstrates the significant progress that we have made.



Michael Ord
Group Chief Executive

Underlying operating profit

£54.7m



Revenue

£402.5m



Dividend

3.9p



Introduction

Despite the challenging and changing environment that we have been operating in, all our sites have remained open and we have made every effort to sustain our operations in support of our customers and their essential missions. The response of our people, and their families, has been outstanding and it is this significant team effort that has produced results ahead of our expectations, reflecting strong performance in both segments.

Safety

Safety is our core value, with the health, safety and wellbeing of our colleagues, their families, our customers and the communities in which we operate being our priority. This has been particularly relevant this year. Our goal remains zero harm, which will be achieved through establishing and embedding a proactive safety culture which focuses on the control and interaction of people, plant and process.

2020 has been an unprecedented year due to the CV-19 pandemic. Whilst this created a need for special focus we have still maintained progress in line with our HSE strategy, with an emphasis on embedding the standards and processes we implemented last year across the areas of control of major accident hazards, injury reduction and HSE risk management. Despite the challenges of CV-19, 2020 has proven that we have developed and continue to build a stronger safety culture.

In 2020 our lost time injury rate was 0.24 compared to 0.40 in 2019. This represents five injuries and reflects a 40% decrease in lost time injuries and we are pleased to report there were no fatalities or life-changing injuries. Our total recordable injury frequency ("TRIF") rate was 0.85. The 2020 TRIF rate matches our 2019 performance.

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 safe, sound and ethical business conduct at all times.

Good progress has been made during 2020 as we manage our sustainability agenda, and in particular our environmental, social and governance ("ESG") related risks. During the year we concluded the exit from the Group's commoditised energetics businesses and in doing so we retired significant reputational risk and have improved the quality of the Group and its future earnings. Chemring is now a business with an evolving purpose of **Innovating to Protect**, and, with that we are focused on protecting our customers, people, assets and information.



Group Chief Executive's review continued

Environmental, social and governance continued

Whilst our approach to sustainability continues to evolve we are committed to implementing transparent policies and procedures, and to fostering an inclusive culture across the Group where everyone does the right thing and takes responsibility for their actions. In doing so we will build a sustainable company of which all our stakeholders can be proud, now and in the future.

2020 performance

Despite the changing and challenging environment in which we have operated throughout much of 2020, I am pleased to report that the Group has recorded a strong set of results for this financial year, ahead of the Board's expectations. Revenue for the year was up 20% to £402.5m (2019: £335.2m), underlying operating profit was up 24% to £54.7m (2019: £44.0m) and statutory profit before tax was up 62% to £43.3m (2019: £26.7m). Underlying earnings per share was up 35% to 15.1p (2019 11.2p).

We set ourselves three broad objectives for 2020 and it is pleasing to report good progress against all three.

The first was to defend and grow our global countermeasures business.

It was a year of solid recovery in performance within the countermeasures businesses, with a significant improvement in revenue that was driven primarily by the Australian and Salisbury facilities being operational after the F-35 fit-out and phased restart in 2019. All sites focused on improving efficiency and competitiveness through modernisation, automation and lean manufacturing.

The actions we have taken to consolidate our countermeasures businesses into a single global structure continue to progress well. Strong working relationships and collaboration are now common, as is the sharing of operational best practice, supply chains, market intelligence and new product development.

The Tennessee capacity expansion programme, designed to address the expected F-35 demand from the US Government and international nations and safeguard the Group's position in the global countermeasures market, continues to progress on schedule. During the year £22m was spent on the facility, bringing the total spend to date to £37m. The expected total cost of the programme is approximately £50m, with the first incremental revenues from this facility expected in 2022.

Order intake for the countermeasures businesses was strong with notable highlights being Chemring Australia's undefinitised contract on the F-35 programme for the US DoD, announced in May 2019 at a value of \$60m, being definitised at a value of \$107m in April 2020, and the US countermeasures businesses being awarded contracts totalling \$136m during the year to supply expendable countermeasures to the US Air Force, US Navy and other services. This significant order intake reinforces the mission criticality of our products and underpins our decision to invest in our manufacturing facilities.

The second objective was to grow Roke.

Our Roke business delivered another solid year with double-digit growth in revenue. It also maintained strong margins despite increased investment in people, infrastructure and product development.

In the UK, the markets for electronic warfare, cyber-security and data science capabilities, in which Roke is a leading participant, have remained buoyant in the period. The increasing threat to information security, together with the proliferation of autonomous systems and artificial intelligence, is resulting in customer budgets for Roke's services continuing to improve.

Whilst Roke's primary focus is in the UK and Europe, we are also pursuing opportunities in the US and Asia Pacific markets. Securing an important first electronic warfare ("EW") order for Roke's Resolve product to the US DoD was a key strategic objective for 2020 and was achieved through significant collaboration between Roke and our US sensors business.

This award provides a platform from which to explore further opportunities to penetrate the EW market in the US.

Roke is increasingly exploring partnering agreements with other leading organisations to access further market opportunities. An example of this is Charlie Charlie One ("CC1"), a Dismounted Situational Awareness system that Roke has developed in partnership with Samsung SDS Europe. This ongoing relationship focuses on product development, sales and marketing, management and joint customer engagement. Some initial sales of CC1 have now been made and successful demonstrations and trials conducted in 2020 with several European militaries may culminate in future orders in 2021.

Roke remains a key driver of future growth and as such we will continue to invest in support of this business as we seek to optimise the opportunity for Chemring. We will continue to prioritise business development activities with our UK Government customers and in parallel we will seek to develop further opportunities in both the industrial sector and internationally.

The third objective was to protect and grow our US sensors business.

Our US sensors business has continued to make good progress in all of the US DoD's Programs of Record.

The US DoD's Explosive Hazard Detection HMDS program, on which we are the sole-source provider, continued to progress as expected with customer deliveries made on schedule throughout the year. Delivery orders of \$62m were received during the year and early into the second half of the year a contract modification was received which increased the existing IDIQ by a further \$200m. This gives good visibility on the program out to 2024.

The two sole-source biological agent threat detection programs continued to make good progress during the year, with the customer awarding a contract modification that moved the naval variant, EMBD, from development to Low Rate Initial Production ("LRIP"). On the other biological detector program, JBTDS, which is designed for the US Army, we continued to deliver against our Engineering and Manufacturing Development ("EMD") contract. A customer LRIP procurement decision is expected in 2022.

On the chemical agent detector program, AVCAD, we continued to progress through the EMD phase as expected. Chemring is currently one of two contractors selected for this competitive program and the next customer procurement decision point is expected to be at the conclusion of the EMD phase in 2021. We continue to focus our efforts on building a winning solution.

Aside from these three broad objectives the Group also made good progress in its strategic focus on higher margins and more predictable revenue streams.

A significant milestone in the year was the disposal of Chemring Ordnance in May 2020. This completed the strategic exit from the four commoditised energetics businesses that was announced in November 2018 and, with it, the Group has retired its exposure to a significant amount of operational and reputational risk. This move has also enabled us to place greater focus on our remaining niche specialist energetic devices and materials businesses. These businesses, which have deep intellectual property and high barriers to entry, enjoyed a stronger year driven by favourable market conditions and improving operational execution.

The Group's order book at 31 October 2020 was £476.0m (2019: £449m), of which approximately £326m is scheduled for delivery during 2021, representing cover of approximately 78% of expected 2021 revenue. The increase since 31 October 2019 is primarily attributable to contracts awarded in the countermeasures businesses.

The underlying operating profit from continuing operations of £54.7m (2019: £44.0m) resulted in an underlying operating margin of 13.6% (2019: 13.1%). The increase in margin primarily reflects the positive impact of the Australian and Salisbury facilities being operational after the F-35 fit-out and phased restart in 2019, combined with a strong year in Sensors & Information due to a strong performance on the HMDS IDIQ contract and in Roke's information security business.



Net debt at the year end was £48.2m (2019: £75.7m). The current debt level reflects the recognition of a £6.5m finance lease liability as a result of applying IFRS 16 Leases (effective 1 November 2019), and the previously announced high level of capital expenditure in 2020 which has been funded by continued strong operational cash generation. Underlying operating cash inflow of £82.4m (2019: £63.9m) represented 110% (2019: 104%) of EBITDA.

On 19 November 2019, the final tranche of 5.68% private placement loan notes of \$83.6m was repaid. This was funded from the Group's £145m multi-currency revolving credit bank facility. In response to the emerging CV-19 pandemic and the risk of business disruption, in April 2020 the Group obtained an additional short-term £100m facility, of which £50m was drawn, to further strengthen the Group's liquidity position. Having not been used, this facility was repaid in full in October 2020.

Culture

The realignment of the operating businesses under two sectors and the changes in leadership that were enacted in 2019 and 2020 has created a strong foundation from which are able to build a culture and environment founded on inclusion, respect and diversity. We are committed to implementing transparent policies and procedures, and to fostering an inclusive culture across the Group where everyone does the right thing and takes responsibility for their actions. We want all of our colleagues to be able to bring their whole self to work and then return home safely at the end of every day. In doing so we will build a sustainable company of which all our stakeholders can be proud, now and in the future.

Particular areas of focus in 2020 have been around people development, communication and wellbeing. Each of these are key to developing the capability of all our colleagues and ensuring that they are engaged with Chemring enabling us to continue to build a stronger business.

Chemring is its people and this means understanding how we can make the Chemring community feel even more inclusive so that anyone who lives our values and supports our purpose feels they can bring their whole

self to work without fear of judgement or discrimination. Through the culture review undertaken in 2019, and the ongoing engagement throughout 2020, we are determined to ensure that all colleagues have a voice and are able to share their thoughts regularly and know that the leadership team is listening.

Innovation requires diversity of thought, education, background, experience and personality type. We will continue to focus throughout 2021 on developing an inclusive and dynamic work environment for all our colleagues in support of our business goals and to ensure that we continue to invest in our people.

Conclusion

Despite the challenging environment in which we have been operating throughout most of 2020, a great deal has been achieved this financial year. We set ourselves demanding goals and our teams across the Group have risen to those challenges.

The work that has been done in recent years to build a stronger, higher quality and more sustainable business, based on our shared values of Safety, Excellence and Innovation, is delivering positive returns for all stakeholders.

This would not have been possible without our greatest asset – our people. I would like to thank all of my colleagues across Chemring for their commitment, innovation and hard work in exceptional circumstances.

The resilience that the business has shown as we have adapted to the coronavirus pandemic, the solid demand and increased visibility that we continue to see for our products and services, and the innovation and dedication of our people enable me to look to the future with confidence.

Innovating to Protect

Michael Ord

Group Chief Executive
15 December 2020

Our values in action



Tennessee capacity expansion programme

The Tennessee capacity expansion programme is a £50m investment project to build the world's most advanced automated countermeasures manufacturing facility. Based at our Tennessee site, this new facility is a key enabler to ensuring we maintain and grow our global countermeasures leading role.





Creating value

We focus on providing innovative solutions that meet our customer requirements efficiently and on time.

Key strengths	Our values	What we do
Employees Highly-skilled workforce operating in niche capability areas Customer relationships Long-term, high-quality customer relations, often at Tier 1 level with “Five Eyes” governments Supplier collaboration Key partnerships with supply chain to deliver customer value Facilities Investment in facilities, including automation to deliver quality and efficiency	Safety We place safety at the heart of everything we do. • We operate safely and manage risk. • We promote best safety practice across the business and beyond. • We ensure we minimise our impact on the environment. Excellence We are focused on ensuring we consistently meet high standards in all that we do. • An ethos of continuous improvement is core to our approach. • We take actions to ensure that we maintain and deliver operational excellence. • We deliver on our promises. Innovation We create world-class solutions and develop world class thinking. • We inspire imaginative solutions. • We work together to turn ideas into technologies and solutions. • We value collaboration and sharing experience.	Invest in people, processes and products Chemring is a technology business with approximately 2,300 employees worldwide. We invest in our future by developing the capabilities of our people, maintaining safe and efficient operations and developing next-generation solutions to meet our customers' current and emerging needs. Win orders We operate in niche markets in the global defence and security markets. Our targeted investments ensure we are competitively positioned to offer reliable, state-of-the-art solutions to meet customers' needs. In Countermeasures & Energetics, we are the world's largest supplier of countermeasures, with our leading technology and manufacturing position. Our niche energetics businesses win orders based on the technical superiority of our products. In Sensors & Information, we maintain our technological leadership to meet ever more demanding customer requirements. Deliver solutions We focus on providing innovative solutions that meet our customer requirements efficiently and on time. In addition to our capital and technology investments, we also invest in continuous improvement, which is key to minimising the cycle time from order to delivery.



Outcomes

Investment

Our investment in property, plant and equipment in the year totalled £36.9m. In addition, we invested £62.0m in product development, of which £52.5m was customer funded.

The capacity expansion project at the Tennessee countermeasures site continues to progress on schedule and, excluding significant investments such as this, we aim for investment to at least match depreciation and amortisation each year.

Investment

£98.9m

(2019: £96.9m)

Cash flow

We aim to convert 100% of underlying EBITDA to underlying operating cash flow over the medium term, accepting that timing differences will arise at individual period ends.

In 2020, the conversion ratio was 110%, reflecting strong operating cash generation and the continued focus on managing working capital.

Underlying cash conversion

110%

(2019: 104%)

Dividends

For the year ended 31 October 2020, our dividend will be 3.9p per share, an increase of 8% on the prior year, subject to the approval of the final dividend at the Annual General Meeting.

Dividend

3.9p

(+8%)

Stakeholder value

Shareholders

We return money to our shareholders through dividends and, through the execution of our strategy, we grow the value of their investment over time.

Employees

We provide development opportunities and a safe and rewarding working environment for our employees.

Suppliers

Our suppliers are supported by the procurement of goods and services that we require.

Customers

We provide innovative solutions in response to our customers' requirements.

Communities

We support local jobs and skills and contribute to the communities in which we operate.

Governments

Through paying taxes in the jurisdictions in which we operate, we support the development of public infrastructure and services.



Section 172 statement

Responding to our stakeholders' needs

Section 172 (1) of the Companies Act 2006 requires the directors to act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing so, section 172 requires the directors to have regard, amongst other matters, to the:

- likely consequences of any decision in the long term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

In discharging our section 172 duties the directors have regard to the factors set out above and any other factors which we consider relevant to the decision being made. We acknowledge that every decision we make will not always result in a positive outcome for all of our stakeholders. However, by considering the Company's purpose, vision and values, together with our strategic objectives and having a process in place for decision making, we aim to ensure that our decisions are considered and proportionate.

Further details on how the Board operates and reflects stakeholder views in its decision making are set out in the corporate governance report on pages 66 to 75. Further information on how the Board has had regard to section 172 matters during the year can also be found in the following sections of the annual report:

Section 172 factor	Key examples	Page
Consequences of any decision in the long term	• Investment case • Business model • Target markets • Strategy	4 14 20 22
Interests of employees	• COVID-19 response • Stakeholder engagement • Health and safety • Our people	6 17 48 55
Fostering business relationships with suppliers, customers and others	• COVID-19 response • Business model • Stakeholder engagement • Target markets • Strategy • Ethics and business conduct	6 14 17 20 22 59
Impact of operations on the community and the environment	• Health and safety • Environment • Our people	48 51 55
Maintaining high standards of business conduct	• Ethics and business conduct • Corporate governance report	59 66
Acting fairly between members	• Investment case • Stakeholder engagement • Corporate governance report	4 17 66



Stakeholder engagement

The Board recognises that positive interaction and collaboration with all of our stakeholders is essential to the delivery of sustainable long-term value. Effective engagement allows the Board to understand relevant stakeholder views on material issues which may impact the business and helps to inform the Board's decision making.

We engage with a wide range of stakeholders at the Board level, at a Group level and within our business units. In understanding what matters to our stakeholders we are able to take this into account when setting our strategy and also in planning our day-to-day business operations.

The table below sets out how we engage with our key stakeholders.



Customers	Employees
Why we engage Ensuring that we provide innovative solutions that meet our customers' needs, efficiently and on time, is crucial to the delivery of our strategy and the long-term success of the business. Understanding our customers' needs can only be achieved through regular interaction and collaboration.	Why we engage Our people are at the heart of our business. They are critical to the delivery of our strategy and the future growth of the business. We recognise the importance of attracting, developing and retaining the best talent, and the need to provide a safe and inclusive environment where individuals can thrive.
How we engage - Regular meetings, teaming arrangements and engagement at all levels of our customers' organisations - Partnering with customers on a broad range of technology and product development programmes - Participating in industry forums and working groups, and hosting customer visits to our sites - Attending and exhibiting at selected trade shows, which enables high-level interaction and the opportunity to brief customers on key product developments and other initiatives - The Group Chief Executive and President of our US operations support our businesses through regular interactions with senior customer representatives, and provide feedback to the Board - External market updates and customer views are obtained to support the Board's strategy review - In the US, our Government Security Committee works closely with the customer to ensure that we operate in full compliance with our Special Security Agreement with the US Government and updates the Board on a regular basis	How we engage - Regular all-hands meetings and team briefings - Works councils, trade unions, representative bodies and forums which support and connect people with shared characteristics or interests - Publication of a monthly video blog by the Group Chief Executive, regularly featuring other members of the senior leadership team - Publication of regular company notices and the in-house magazine, Chemring-I, which features news and events from across the Group - Our real-time employee engagement tool, "Employee Voice", enables employees to provide immediate and anonymous feedback on developments within the business, output from which is regularly provided to the Board - Direct engagement with the Board's nominated non-executive director, Laurie Bowen, through meetings with colleagues from across the business and at different levels of the organisation - Board engagement with a wide range of employees during collective and individual site visits throughout the year
How we monitor - Order intake - R&D expenditure - Capital investment - Process safety events	How we monitor - Employee Voice participation and positivity scores - Safety performance indicators - Diversity statistics - CEO pay ratio
Outcomes - Customer-focused inputs into the Group strategy - Innovation and investment driven by customer requirements - Collaborative, strategic customer relationships - Improved customer satisfaction	Outcomes - Development of people strategy and related investment - Safe, healthy and motivated workforce - Focus on diversity and inclusion - Improved employee retention - Attractive proposition for potential new employees



Stakeholder engagement continued

On 30 November 2020, Chemring celebrated its 115th anniversary. A lot has changed since 1905. We have grown into a global business and are proud to have some of the world's finest engineers, scientists and thought leaders as a part of our team. Throughout our history we have always recognised the importance of regularly engaging with all our stakeholders.



Suppliers	Shareholders
Why we engage We rely on our suppliers to provide us with quality raw materials, products and services. Constructive engagement ensures that our suppliers are able to meet our high expectations on safety, quality, value, delivery performance and ethical business conduct. We recognise that prompt payment terms and strong supplier relationships are important in building a long-term, sustainable and supportive supply chain.	Why we engage The continued support of our shareholders is something that we value greatly. We therefore recognise the importance of providing all of our shareholders with regular updates on the Group's operational and financial performance, strategy and future prospects, and ensuring that shareholder views are taken into consideration in relation to major developments in the business.
How we engage - Day-to-day interaction with suppliers is conducted largely by supply chain management teams within our businesses - Long-term agreements are entered into with our key suppliers, which provide visibility on future requirements and enable us to agree performance targets to assist with our drive for continuous improvement - All suppliers are issued with our Supplier Code of Conduct, which sets out the standards of ethical business conduct we expect of them	How we engage - Engagement with shareholders is predominantly led by the Group Chief Executive, the Group Finance Director and the Group Director of Corporate Affairs, although the Chairman and Senior Independent Director also meet with shareholders to discuss specific matters - Publication of our interim and full year results statements, along with regular trading updates throughout the year - Face-to-face meetings or video calls following the publication of any significant news update or at the request of the shareholder - Formal presentations and structured roadshows for our institutional investors, either in person or by video as occurred during the CV-19 lockdown period, following the publication of the Group's interim and full year results - Collation of feedback by our brokers and other financial advisers from our institutional investors, in which their views can be expressed on a non-attributable basis - Our website (www.chemring.co.uk) provides financial, business and governance information on the Group and an alerts service enables subscribing shareholders to receive notification of corporate updates - Our Annual General Meeting provides the opportunity for our private shareholders to hear from and engage directly with the Board
How we monitor - Payments made within payment terms - Statistics on issue of the Supplier Code of Conduct and inclusion of suppliers on the Chemring Compliance Portal	How we monitor - Earnings per share - Dividends paid - Total shareholder return - Environmental, social and governance metrics
Outcomes - Collaborative, long-term relationships - Delivery of safe and reliable products and services to customers - Appropriate working capital management	Outcomes - Development of capital allocation and dividend policy - Development of ESG strategy - Supportive, long-term shareholder base



Communities

Why we engage

We recognise the important role that each of our businesses play in their local communities and we actively encourage our businesses to support local initiatives and charitable causes. Equally, our businesses take pride in the contribution that they make to their local communities, both as a local employer and in the work they do to support good causes.

We also recognise the impact of our business on wider society and our responsibility to contribute to a sustainable future for all.

How we engage

- Our community investment policy confirms our commitment to support selected charitable causes with a focus on the military and armed services, STEM-related initiatives and those linked to the local communities in which our businesses operate
- Each business has its own locally held charity budget and at a Group level charitable donations are considered by the Executive Committee
- In addition to making cash donations, we also encourage and support employees who undertake voluntary work in the local community
- Our people across the Group are involved with a number of educational initiatives and as a business we have relationships with several universities, whereby funding is provided for students' research activities
- Since 2018 we have provided sponsorship through the Horizons Bursary Scheme run by the Institution of Engineering and Technology, which provides financial support during degree study for students who have faced or continue to face adversity whilst they study; these students are all studying STEM degree courses which are relevant to the disciplines required within Chemring

How we monitor

- Charitable donations
- Environmental performance indicators

Outcomes

- Development of ESG strategy
- Informed communities
- Contribution to local businesses and employment
- Contribution to wider society

Governing bodies and regulators

Why we engage

Our businesses operate in highly regulated environments and we need to ensure that we maintain our licences to operate and continue to run our businesses in full compliance with all laws and regulations. We also need to keep ahead of planned regulatory developments which may impact our operations in future.

How we engage

- Maintenance of a regular dialogue with contacts within governments and at our regulators
- Participation in industry working groups and trade representative bodies
- Consultation with local governing bodies on planned business developments and investments
- Interaction with the US Board's Government Security Committee

How we monitor

- Compliance statistics
- Safety-related capital investment

Outcomes

- Implementation of Operational Framework
- Trusted supplier to government customers
- Sustainable business operations



Target markets

Building leading positions

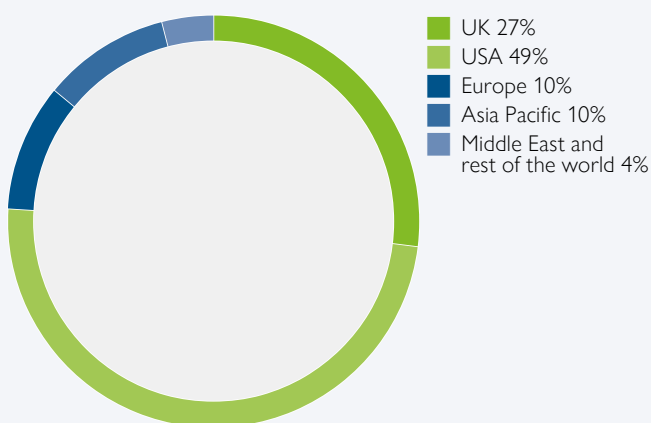
Chemring is an international technology company. Our home markets are the US, the UK, Europe and Australia.

The CV-19 global pandemic is impacting defence budgets globally, with some countries cutting near-term investment whilst others are increasing investment in the short term to provide stimulus to key defence industrial partners.

Whilst not immune to this trend, our home markets are proving relatively resilient. The US, the UK and most of our European customers are providing additional injections of funding for the defence industry and continuing to place orders for procurement programmes. Australia is expected to go even further, having announced in 2020 a large-scale budget increase through to 2030 that is expected to fund multiple large-scale acquisition programmes.

Global sales

% of Chemring's global sales (2016–2020)



US

We are capitalising on our successful investment in explosive hazard detection and next-generation chemical and biological detection technologies where we continue to make progress on a number of Programs of Record.

The largest part of our investment is in the US Countermeasures sector. The capacity expansion programme at our North American manufacturing operations, which continues to progress on schedule, will allow us to capitalise on the growing F-35 fleets. F-35 will become the primary fighter jet for the US Navy, Air Force and Marine Corps, and is intended to remain in service well beyond 2040, likely creating opportunity for a large, stable and recurring countermeasures business in the US, as well as with multiple partner nations in the programme, including both the UK and Australia. Flare countermeasures are expected to remain a priority for manned aircraft fleets and will continue to be procured alongside other technologies. This is especially true for our core platform positions in the US market, notably the F-16, F-15 and F-18, which are all intended to remain in service at minimum into the 2030s.

Technology and innovation

We have world-leading technologies, incumbent supplier advantage and a depth of expertise in research, design and engineering in many fields, most notably chemical and biological detection, artificial intelligence, autonomous systems, communications and network security, and data science.

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

The FY21 National Defense Authorization Act was passed in July 2020 with a base budget for FY21 of \$636bn. The President's FY21 Budget Request also projected the US DoD five-year programme to settle at a base budget level of \$758bn in FY25*, providing growth to sustain personnel increases in all four services, major equipment programmes such as the F-35 and investments in technology innovation in electronic warfare, the increased use of unmanned systems and cyber capabilities, as well as renewed emphasis on space-based surveillance systems and warfighting options. Since the beginning of the CV-19 global pandemic, the US passed the Coronavirus Aid, Relief and Economic Security ("CARES") Act, in March 2020, which provided \$10.5bn of stimulus spending for the US DoD. In July 2020, the US Senate also introduced the Coronavirus Response Additional Supplemental Appropriations Act, which is expected to provide additional short-term stimulus funding to the US Department of Defense, of which a large amount will be allocated to a "Defense Industrial Base Resiliency Fund" to support the US defence industry.

With 78% of FY21 expected revenue covered by the order book, the Group is safeguarded against any near-term disruption caused by the US presidential transition.

The full impact of the CV-19 global pandemic on long-term defence spending has yet to be fully understood in the US, and we expect further clarity from the US Government and DoD throughout 2021.

Our US businesses remain well positioned despite any near-term uncertainty:

- F-35 fleet ramp-up will drive a stock build for its new countermeasures to deliver full operational capability for the aircraft. This is expected to continue into the mid-2020s as the fleet achieves full operating capability.
- HMDS is a Program of Record with a planned fleet of 369 systems.
- Procurement spend for chemical and biological situational awareness is set to more than double from FY18 levels.

In addition, several of the identified technology innovation initiatives align with Chemring's Group-wide capabilities in electronic warfare, autonomy, cyber, artificial intelligence and space. Electronic warfare in particular is expected to be a key area of spend in the current spending plan, with several programmes likely to begin in 2024 that play to Chemring Group's capabilities in signals intelligence ("SIGINT") and electronic intelligence ("ELINT") and land-based electronic warfare.

* Source: Congress.gov



Following the announcement by the UK Government in November 2020 that an extra £16bn will be spent on Defence over the next four years, the UK will remain a leading European defence market

UK Defence spending is expected to grow from around £41.5bn per annum in 2020 through to over £50bn per annum by 2025. As the sole source supplier of countermeasures to the UK's F-35 and Typhoon fleets, and through its Roke business, Chemring is well positioned to benefit from this increase, selling directly to the MOD and security agencies, as well as to prime contractors.

New funding for defence comes on top of the Conservative party's existing pledge to spend an additional 0.5% above inflation on defence every year, and marks a welcome change to the slower growth experienced since 2015. Over the past decade, budgets have been squeezed by major programme commitments in armoured vehicles and ships, but also the continued acquisition of new platforms including the F-35 and the P-8 maritime patrol aircraft. These commitments now provide a clearer funding path for the next generation of UK military capability.

We still await the publication of the Integrated Defence Spending Review, now expected in Q1 2021, which will lay out the key priorities for defence over the next five years and beyond. Whilst significant portions of the new funding may be required to plug the pre-existing affordability gap, we may yet see legacy capabilities and platforms retired in favour of investment in the next generation. However, major committed programmes are now likely to be protected, with investment focused on cyber, space, combat air and naval platforms, as well as a significant boost to defence R&D.

For Chemring, the UK MOD accounts for less than 5% of Group revenues; however, it is an important partner for developing and qualifying new products, a role that may gain increased significance as the UK seeks to invest in innovation and modernisation.

Europe combines modern, well-equipped forces with budget-constrained NATO members on its Eastern borders

European defence spending is returning to growth. In an attempt to minimise the impact of the CV-19 global pandemic, equipment procurement has been pulled forward into 2020 and 2021 to support industry in most Western European and Nordic members, with Germany in particular having agreed up to €10bn in stimulus to support its defence industry through 2023/2024. The UK, France and Germany remain key

contributors to spend and actively contribute to growth in NATO Europe defence spending, with all three investing in aircraft and wider sensors and electronic warfare. Long-term co-operative programmes are also making a resurgence, with the Franco-German Maritime Airborne Warfare System ("MAWS"), the Franco-German Multinational Ground Combat System ("MGCS"), the Franco-German-Spanish Future Combat Air System and the UK-Italian and Swedish Tempest fighter aircraft all expected to drive R&D spending through the 2020s.

European defence spending currently falls short of NATO's 2% GDP target, with only eight countries in Europe meeting this target in 2019. Major contributors to spend, such as Germany, have committed to reaching 1.5% of GDP by 2024, though recent GDP reductions caused by CV-19 have resulted in many countries achieving the goal in 2020. However, most, like Germany, are likely to commit to maintaining this level of defence spending through to 2024, making it likely that few will reach the NATO mandated targets by the mid-2020s. Although Chemring competes with highly capable rivals and national champions in Europe, we have succeeded in selling countermeasures, electronic warfare ("EW") and improvised explosive devices ("IED") detectors to customers including Germany, France, Italy and Spain. In addition, we supply energetic materials and components to several leading prime contractors across the region.

The outlook for the market is potentially more positive, and there are some niche opportunities as new NATO members seek to upgrade their capabilities and begin positioning for next-generation development programmes.

Australia is Chemring's fourth home market and it aims to grow its defence spend to 2% of GDP by 2021

Australia has a well-equipped military, which draws on both US and UK products as well as highly capable local suppliers. Australia is in the midst of a large-scale equipment and capability refresh and, in 2020, the Australian Government announced its intention to grow the defence budget to AU\$73.7bn by 2029-30, with total estimated funding of AU\$575bn over the decade.

Chemring Australia provides the Commonwealth with an on-shore capability in countermeasures manufacture, building on manufacturing know-how shared across the Group. It is positioned to benefit from the global F-35 programme as it gears up to share with our countermeasures business in the US the production of countermeasures for F-35 operators around the world.





Sustainable growth

Our strategy is to deliver profitable growth by focusing on niche markets where we can be the world leader, where there are significant barriers to entry and where we can grow faster than the wider defence market.

1



Target growing niches

Global defence budgets are growing at 2–3% per year but military investment in specific capabilities varies 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 & Information sector.

2



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Win market share

In addition to targeting innovation-driven growth niches, we also aim to win market share by focusing on meeting customer needs, cost effectively and on time.

The largest part of our current investment is in the Countermeasures & Energetics sector to expand capacity at our North American manufacturing operations to capitalise on the surge in demand for countermeasures driven by the growing F-35 fleets.

3



Grow our US business

Our US businesses deliver more than half the Group's revenue and their recent successes in the F-35 countermeasures and Sensors & Information Programs of Record affirm their excellent access and insight into US military needs, including classified programmes.

We will leverage this access to launch our non-US capabilities into the largest market in the world.



Our principal risks are documented on
Pages 38 to 44

Strategy in action

In the US, we are capitalising on our successful investment in next-generation explosive hazard detection and chemical and biological detection technologies where we have won the HMDS and JBTDS Programs of Record. In the UK, we are developing next-generation land electronic warfare and electronic countermeasures to detect and defeat threats in the cyber and electromagnetic activity ("CEMA") domain; and in our national security business, we are increasing our capacity, growing our capability and expanding our footprint to grow with the increasing market demand. In 2020, Roke secured a strategically important first electronic warfare order for Resolve to the US DoD.

KPI

Order book

£476m ↑ 6%

(2019: £449m)

Strategy in action

The investment in the US manufacturing operations for our Countermeasures & Energetics sector will improve safety through remote operations, improve quality through automation and deliver extrusion capacity required for next-generation flare production.

Outside of the US, we continue with our significant investment in safety and automation to create a group of high-performing manufacturing facilities.

KPI

Order intake

£437m ↑ 6%

(2019: £411m)

Strategy in action

In Countermeasures & Energetics we are sharing conventional, spectral and kinematic flare products and processes developed in the UK and Australia with our US operations and are promoting the benefits of these capabilities to the US customer.

In Sensors & Information, the next-generation HMDS will incorporate a Roke-developed wire detector for which the technology has been transferred into our US operations, and we will extend this to include our developments in land-based cyber and electromagnetic activity ("CEMA") and electronic countermeasure ("ECM") products.

KPI

Revenue

£402m ↑ 20%

(2019: £335m)



Key performance indicators

Measuring our progress

The Group's strategy is underpinned by focusing on a number of key performance indicators ("KPIs").

These KPIs enable progress to be monitored on the implementation of the Group's strategy, levels of investment, operational performance and business development. They also give an early insight into how well the principal risks and uncertainties are being managed.

Similar indicators are used to review performance by each of the Group's businesses, albeit that the exact nature of these varies between business units to reflect the differing nature of their operations.

The KPIs that the Board and senior management utilise to assess Group performance are set out below. All financial KPIs refer to continuing operations and therefore exclude businesses classified as discontinued and held for sale.

Strategic priority			
Safety			
KPI	1 Number of energetic events causing harm or injury 1 (2019: 2) 	2 Number of near miss and potential hazard reports 2,320 (2019: 1,880) 	3 Lost time injuries number and frequency rate Number: 5 (2019: 8) Rate: 0.24 (2019: 0.40)
Description	Number of energetic events causing harm or injury.	Number of near miss and potential hazards reported, including unsafe conditions and behaviours.	Number of lost time injuries per 200,000 man hours worked.
Why is it a KPI?	A process safety event is one of the key strategic safety risks of the business. This indicator measures those events that have caused injury or harm.	This indicates employee awareness of hazards and the greater the reporting the more engaged our people are.	Industry standard indicator that provides a measure of injuries that result in a person being away from work for more than one day.
2020 performance	There was one event this year compared to two last year. The one event resulted in minor injuries with no potential for serious harm.	This level of reporting demonstrates that the workforce is engaged and feels comfortable reporting near misses and potentially hazardous situations. The 2019 comparative has been restated to include continuing operations only, following the divestment of Chemring Ordnance, Inc. and Chemring Defence UK Limited.	The rate decreased this year. The total numbers are low and the wider total recordable injury frequency rate provides a better indicator of performance. The 2019 comparative has been restated to include continuing operations only, following the divestment of Chemring Ordnance, Inc. and Chemring Defence UK Limited.



Orders		Revenue	
4 Total recordable injuries number and frequency rate Number 18 (2019: 17) 2020 18 2019 17 Rate 0.85 (2019: 0.85) 2020 0.85 2019 0.85	5 Order intake Group £437m (2019: £411m) Sensors & Information 2020 £149m 2019 £134m Countermeasures & Energetics 2020 £288m 2019 £277m	6 Order book Group £476m (2019: £449m) Sensors & Information 2020 £87m 2019 £80m Countermeasures & Energetics 2020 £389m 2019 £369m	7 Revenue Group £402m (2019: £335m) Sensors & Information 2020 £137m 2019 £132m Countermeasures & Energetics 2020 £265m 2019 £203m
Number of recordable injuries per 200,000 man hours worked.	Order intake is measured at expected sales value and represents the last 12 months' activity.	Order book is measured at expected sales value and indicates future potential.	Revenue is measured at sales value less any applicable sales taxes.
This is the rate for all injuries including medical treatment, restricted workday and lost time injuries. It is a more sensitive indicator of occupational safety than lost time injury frequency rates, as more minor events are captured.	The trend of order intake gives an indication of market conditions and our competitiveness within our markets.	The level of order book, in particular for delivery in the next year, gives a degree of confidence in expected future financial performance.	The trend of revenue gives an indication of both the state of the end market and our business' ability to execute orders on time to satisfy customer needs.
The 2019 comparative has been restated to include continuing operations only, following the divestment of Chemring Ordnance, Inc. and Chemring Defence UK Limited.	Strong order intake in Countermeasures & Energetics resulted in an order book for the continuing business at year end of £476m (2019: £449m). £326m is currently due as revenue in 2021, approximately 78% coverage of 2021 targeted revenue.		Group revenue growth was in line with our expectations, as the countermeasures facilities in Salisbury and Australia were operational for the whole year. There was continued strong performance in the Sensors & Information segment.



Key performance indicators continued



Strategic priority	Underlying operating profit and margin	Continuing underlying earnings per share
KPI	8 Underlying operating profit and margin Underlying operating profit Group £54.7m (2019: £44.0m) Sensors & Information 2020 £27.4m 2019 £26.3m Countermeasures & Energetics 2020 £39.9m 2019 £27.5m Underlying operating margin Group 13.6% (2019: 13.1%) Sensors & Information 2020 20.0% 2019 19.9% Countermeasures & Energetics 2020 15.0% 2019 13.5%	9 Continuing underlying earnings per share 15.1p (2019: 11.2p) 2020 15.1p 2019 11.2p Change from previous year up 35% (2019: up 62%) 2020 35% 2019 62%
Description	Underlying operating profit excludes non-underlying items that could, by their size or nature, distort the Group's underlying quality of earnings. Underlying operating margin is calculated as underlying operating profit divided by revenue.	Calculated as adjusted earnings after tax divided by the average number of shares in issue.
Why is it a KPI?	Underlying operating profit provides a consistent year-on-year measure of the trading performance of the Group's operations. A focus on operating margin allows the impact of changes in revenue and cost base to be monitored, enabling comparisons to be made of management performance and trading effectiveness.	The measurement of underlying EPS reflects all aspects of the Group's income statement including the management of interest and tax.
2020 performance	The continuing underlying operating profit increased by 24% during the year. The changes in margin of each sector reflect the market conditions, volume changes and performance improvement actions, as set out in this strategic report.	Underlying EPS increased by 35% in 2020, driven by increased underlying operating profit and lower interest costs.



Working capital and inventory

Net debt and cash flow

10 Working capital Group £85.1m (2019: £90.5m)	11 Inventory Group £91.3m (2019: £78.1m)	12 Net debt: continuing underlying EBITDA 0.65x (2019: 1.24x)	13 Continuing underlying operating cash flow £82.4m (2019: £63.9m)
Sensors & Information 2020 £38.8m 2019 £35.2m Countermeasures & Energetics 2020 £46.3m 2019 £55.3m	Sensors & Information 2020 £24.8m 2019 £19.4m Countermeasures & Energetics 2020 £66.5m 2019 £58.7m	2020 0.65x 2019 1.24x	2020 £82.4m 2019 £63.9m Conversion of EBITDA into operating cash 110% (2019: 104%) 2020 110% 2019 104%
Working capital is defined as inventories, trade and other receivables, less trade and other payables.	Inventory is measured at cost.	Measured as net debt divided by EBITDA for the previous 12 months.	Cash flow from continuing operating activities before tax outflows, non-underlying items and pension payments.
Efficiently turning profit into cash demands a degree of control over working capital.	The primary focus for improvement in working capital is inventory.	This is a measure of leverage within the business and is a banking covenant.	This is a key measure to ensure profit turns into cash in short order.
Working capital as a percentage of revenue improved from 27% to 21%.	Broadly in line with increased levels of business activity during the year.	This has decreased in 2020, as EBITDA has increased and net debt has decreased.	Operating cash flow increased in 2020 as an increase in operating profit was supplemented by the enhanced focus on working capital.



Focus on

Sensors & Information

Chemring's Sensors & Information products include world-leading systems for detecting improvised explosive devices ("IEDs"), chemical and biological agents, and core technologies for detecting, intercepting and jamming electronic communications. The Group is also a leading supplier of consulting and technology services, trusted by government and industrial partners worldwide to solve the most technically challenging security-critical issues.

Operating across defence, national security and commercial domains, the Sensors & Information sector is constantly innovating to enable customers to deliver competitive advantage and to defend their people, assets and information.

Key facts

Revenue

£137.2m

(2019: £131.9m)

Underlying operating profit

£27.4m

(2019: £26.3m)

Order book

£87m

(2019: £80m)

Underlying operating margin

20.0%

(2019: 19.9%)

Statutory operating profit

£21.0m

(2019: £19.7m)

Strategy

The Sensors & Information sector remains Chemring's principal area of focus for long-term growth, reflecting customer demand and opportunities in this area.

We continue to focus on expanding the Group's product, service and capability offerings in the areas of tactical electronic warfare and cyber-security, and in building a technology-based strategy for growth beyond current DoD Programs of Record in the areas of explosive hazard detection and chemical and biological threat detection.

The Group's specialist consulting and technology services business, Roke, operates in the growing cyber-security market, and investing in recruiting, developing and retaining our people, together with expanding our geographical and customer coverage, is key to profitable growth in this area.

We continue to actively explore opportunities to expand Roke's capabilities and offerings, particularly into industrial and international markets. As part of this we have established Roke USA, Inc. in the US which provides the platform from which to transition the electronic warfare ("EW") and other technologies created in the UK and commercialise them in the US.

There is growing collaboration between our US and UK businesses and both our UK and US businesses (Roke and Chemring Sensors & Electronic Systems ("CSES")) have a single aligned strategy which captures the individual businesses' focus areas and also their shared campaigns.

Markets

In the Sensors & Information sector, our current strong positions in explosive hazard detection and chemical and biological detection are expected to be enhanced by market share growth in EW and cyber-security. Chemring is a key provider of capability to our clients in defence and national security, and with a growing concern about many national and international threats, our customers are continuing to increase demand for our products and services.

As CV-19 changes how our customers protect and secure borders, monitor threats and work to reopen global air travel, we see growing interest in civil applications for some of our products and services, including our chemical and biological agent detection portfolio that may convert to revenue opportunities over the medium term.

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

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

Performance

Revenue for Sensors & Information increased by 4% to £137.2m (2019: £131.9m) and underlying operating profit increased by 4% to £27.4m (2019: £26.3m), as underlying operating margin improved to 20.0% (2019: 19.9%). The Sensors & Information business in the US has seen continued progress on the US Programs of Record and Roke's information security business has continued to grow.

On a constant currency basis revenue would have risen 4% to £137.6m and underlying operating profit would have been up 6% to £27.8m.

The statutory operating profit for the year was £21.0m (2019: £19.7m).



Our values in action



EW expansion into the US

Establishing a foothold in the electronic warfare market in the US was a key strategic objective for the Sensors & Information sector in 2020. Close collaboration between Roke and our US sensors business, CSES, resulted in Roke securing a first order for its Resolve electronic warfare system into the potentially significant US EW market. We will support the customer through product trials and evaluation with a view to securing further orders to meet the customer's future operational requirements.



Key developments in the year 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 vehicle, further delivery orders of \$62m were received in the year, providing visibility on this Program of Record well into 2021. The production phase is progressing as planned and customer deliveries were made on schedule throughout the year. Early into the second half of the year a contract modification was received which increased the existing IDIQ by a further \$200m. This gives good visibility on the program out to 2024.

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

On the Joint Biological Tactical Detection System ("JBTDS") program, following the Biological Point System Assessment in 2019/20, we are making some customer requested technical changes and enhancements, and now expect a customer procurement decision in 2022.

The second biological program is the Enhanced Maritime Biological Detection System ("EMBD"), where the customer is the US Navy. In May, we were pleased that the customer approved and awarded the contract modification for low rate initial production ("LRIP") for the EMBD program. The program is expected to be worth up to \$100m over five to ten years once in full rate production, which is expected to commence in 2022.

Across the two biological programs, in 2020, revenue was \$10m lower than 2019 due to the phase of the program being heavily weighted to customer testing, the funded development work having been completed in 2019.

The Aerosol and Vapor Chemical Agent Detector program ("AVCAD") is progressing through the engineering and manufacturing development ("EMD") phase as expected. The EMD and LRIP phases are expected to be worth approximately \$18m in the period to 2022. Following this, the customer is expected to have a requirement of up to \$800m. Chemring is currently one of two contractors selected for this competitive program. Throughout 2020 we have continued to deliver the 75 test and evaluation units that were ordered in October 2019. The next customer procurement decision point is expected to be at the conclusion of the EMD phase in 2021.

In the UK, the markets for electronic warfare, cyber-security and data science capabilities, in which Roke is a leading participant, have remained buoyant in the year. The increasing threat to information security, together with the proliferation of autonomous systems and artificial intelligence, is resulting in customer budgets for Roke's services continuing to improve. Continued investment in capability in this area is ongoing to optimise the opportunity for Chemring.

Roke delivered double-digit growth in revenue and has maintained strong margins despite increased investment in people, infrastructure and product development. In addition, Roke secured an important first EW order for Resolve to the US DoD. This was a key strategic objective for 2020 and provides a platform from which to explore further opportunities to penetrate the EW market in the US.

Opportunities and outlook

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

In the US, HMDS program deliveries are on schedule with good medium-term visibility and the focus continues to be 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 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.

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 deliver research, design, engineering and advisory services using its high-quality people and capabilities.

Roke will focus its efforts on continuing to grow across all its business areas in the UK, increasing in scale both organically and through potential bolt-on acquisitions, however any acquisition must meet a strict set of criteria, enhance shareholder value and fit in with our wider growth plans. To date, we have reviewed and declined to proceed with a number of possible transactions.

Roke is increasingly exploring partnering agreements with other leading organisations to access further market opportunities. An example of this would be Charlie Charlie One ("CC1"), a Dismounted Situational Awareness tool that Roke has developed in partnership with Samsung SDS Europe. This ongoing relationship focuses on product development, sales and marketing, management and joint customer engagement. Some initial sales of CC1 have now been made and successful demonstrations and trials conducted in 2020 with several European militaries may culminate in future orders in 2021.

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 is likely to put commercial customers' budgets under pressure in some areas, which may result in some short-term challenges in this small but growing niche.

The strategic focus and collaboration between Roke and our US sensors business has secured our first EW order to the US DoD. We will continue to support the customer through product trials and evaluation with a view to securing further orders to meet its operational deployment requirements in this potentially significant market.

The order book for Sensors & Information at 31 October 2020 was £87.3m (2019: £80.0m), of which £76m is expected to be delivered in 2021, providing 53% cover of expected 2021 revenue.

2021 trading performance for Sensors & Information is expected to show a continuation of the levels of business seen in 2020, with medium term growth opportunities driven by the chemical and biological detection Programs of Record moving in to full rate production.



Countermeasures & Energetics

Chemring is the world leader in the design, development and manufacture of advanced expendable countermeasures and countermeasures suites for protecting air and sea platforms against the growing threat of guided missiles.

Our niche, world-class energetics portfolio provides high-reliability, single-use devices that perform critical functions for the space, aerospace, defence and industrial markets including satellite deployment, aircrew egress and aircraft safety systems.

Key facts

Revenue

£265.3m

(2019: £203.3m)

Underlying operating profit

£39.9m

(2019: £27.5m)

Order book

£389m

(2019: £369m)

Underlying operating margin

15.0%

(2019: 13.5%)

Statutory operating profit

£37.4m

(2019: £22.0m)

Strategy

The Countermeasures & Energetics sector strategy continues to be one of strengthening and protecting our world-leading positions through continuously improving our technological and operational base, whilst working closely with our customers in the development of new solutions to meet emerging needs.

Investment in the sector will principally be directed towards safety, automation and the enhancement of current facilities including capacity and capabilities. We also see great opportunity through partnering with our customer base on future technological developments.

Having exited the commoditised energetics businesses, the Group is now able to place greater focus on our niche specialist energetic devices and materials businesses. The Group will seek to secure the position of our energetic sub-systems components on next-generation platforms for missile and space programmes in the US and Europe, through excellent delivery performance on current programmes and strong customer and partner interaction.

Markets

The Countermeasures & Energetics sector remains robust. Chemring continues to maintain a market-leading position in the addressable air countermeasures market. Growth in the sector over the next five years is primarily being driven by increased US requirements, coupled with new technologies being developed in the UK that will be shared across the Group's countermeasures businesses. Sole-source positions on several products and platforms in conjunction with high barriers to entry are evident in the strong current order book.

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

Performance

Order intake in the year increased to £287.8m (2019: £276.5m), driven by high levels of activity in the important US market. Chemring Countermeasures USA was awarded contracts totalling \$136m during the year to supply expendable countermeasures to the US Air Force, the US Navy and other services, including winning a competitive tender for MJU 32/38 flares worth \$50m over five years. As the second qualified source of global F-35 countermeasures, our Australian subsidiary's undefinitised contract of \$60m, announced in May 2019, was definitised at a value of \$107m on the F-35 programme. With deliveries under these contracts being made in 2020 to 2022, these contracts give improved visibility and strengthen our leading position in the global countermeasures market.

In the UK, Chemring Countermeasures UK and Chemring Energetics UK both signed long-term framework agreements with the UK MOD covering the next five years, with a further two-year option. Initial delivery orders valued at £32m were received with deliveries to be made during 2021 and 2022.

In the final month of the financial year, Chemring Countermeasures UK was awarded contracts worth £25.8m from the UK MOD to develop and supply naval countermeasures in support of the Royal Navy, and a further £5.5m contract from the UK MOD to manufacture air countermeasures in support of the UK armed forces. Deliveries under these contracts will be made in 2021 through to 2023.

Revenue for Countermeasures & Energetics increased significantly by 30% to £265.3m (2019: £203.3m), driven primarily by the Australian and Salisbury countermeasures facilities being operational after the F-35 fit-out and phased restart that took place during 2019. Our niche energetic devices businesses enjoyed another strong period driven by favourable market conditions.



Our values in action

**F-35 programme success**

As part of a significant AU\$18m investment to upgrade production at our Australian site, the facility was closed for most of 2019 to be fitted and qualified for F-35-related production. In early 2020, Chemring Australia secured a US\$107.5m production contract to supply countermeasure flares for Australian, US and international F-35 Lightning II Joint Strike Fighter operators. The significant contract award confirms Chemring's position as the designated sole source for operational countermeasures specifically designed to protect the F-35 from incoming missile threats. Since that point, our Australian business has made excellent progress in the delivery of countermeasures for the F-35 programme, further strengthening our reputation with the US DoD.



Underlying operating profit increased by 45% to £39.9m (2019: £27.5m), as underlying operating margin improved to 15.0% (2019: 13.5%) driven by improved operational execution.

The statutory operating profit for the year was £37.4m (2019: £22.0m).

Our global countermeasures business has continued to perform well throughout the year with delivery targets across all product lines being met. The Australian business made excellent progress in the delivery of countermeasures for the US F-35 programme, further strengthening our reputation with the US DoD. Following its phased restart during 2019, the UK countermeasures business has successfully achieved its manufacturing volume objectives. As this business progresses on its modernisation programme, driving improved operational efficiency will be a key area of focus for 2021. The two US businesses continue to work through some CV-19 related challenges associated with the timely completion of customer acceptance tests and staffing levels, but to date these have not had a material impact on our ability to deliver and had no impact at year end.

The Tennessee capacity expansion programme, designed to address the expected F-35 demand from the US Government, continues to progress on schedule. During the year £22m was spent on the facility, bringing the total spend to date to £37m. The expected total cost of the programme remains approximately £50m, with the first incremental revenues from this facility expected in 2022.

Our niche energetic devices and materials businesses have continued to perform well, with order intake and deliveries remaining robust. Our specialist devices business in Chicago has strengthened its position in the space market and saw its products play critical roles on both the SpaceX NASA Crew Dragon mission to the International Space Station and NASA's latest mission to Mars, where we have a number of mission-critical devices on NASA's Atlas V Launch Vehicle and Perseverance Rover.

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 explosives has enabled Chemring Nobel in Norway to work proactively with its customer base on long-term contracting models, providing much improved visibility.

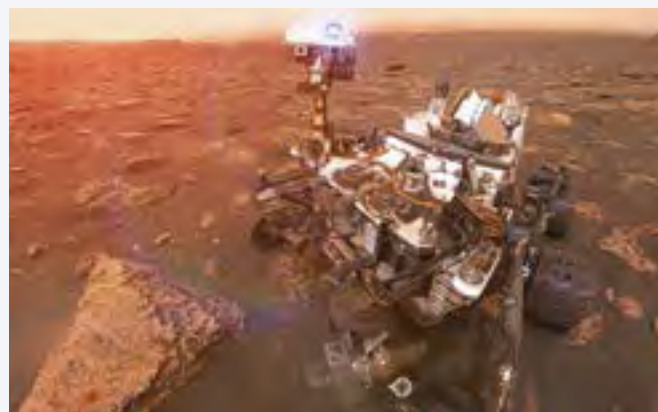
In 2021 we will continue the process of modernisation and automation across our sites, and in improving our competitiveness through investment in lean manufacturing capabilities. We will invest in new product development to ensure that our product portfolio remains highly relevant to our customers, and will continue the process of operational alignment to share technology and manufacturing excellence.

Countermeasures & Energetics' order book at 31 October 2020 was £388.7m (2019: £368.7m). The increase is a result of strong order intake in the US and Australia on the F-35 programme. Of the 31 October 2020 order book, approximately £250m is currently expected to be delivered in 2021, representing 92% coverage of expected 2021 revenue.

Our values in action

**Mission to Mars**

On 30 July 2020, NASA launched its latest rover, Perseverance, on a rocket to Mars. Not only was this a ground-breaking mission, but it would not have been possible without a considerable number of components engineered by Chemring Energetic Devices on both the Perseverance rover and the launch rocket, Atlas.





Delivering margin improvement and strong cash generation



Andrew Lewis
Group Finance Director

“Strong working capital management drove 110% cash conversion and a significant decrease in net debt and interest costs.”

Net debt

£48.2m

(2019: £75.7m)

Finance expense

£3.0m

(2019: £4.6m)

Our focus in 2020 has been on maintaining operational execution and resilience in the face of significant external challenges. The 2020 results demonstrate the benefits of our focus on strengthening our business model and financial resources in the past two years.

In Countermeasures & Energetics, our Australian site demonstrated its ability to manufacture F-35 countermeasures at rate and secured a two-year order with the US DoD for \$107m. Our Salisbury site achieved its revenue goals in the year and became progressively more efficient. Demand for our niche energetic devices continued to be strong with our Chicago site's products supporting the manned US space missions. The significant multi-year investment in our Tennessee site progressed as planned, with commissioning due in the summer of 2021 and first incremental revenues expected in 2022.

In Sensors & Information the execution of the HMDS Program of Record continued as planned with a further \$200m IDIQ contract received. The Chem-Bio Programs of Record continued to progress with EMBD moving into LRIP slightly ahead of expectation and JBTDS and AVCAD continuing through the EMD and customer testing phases. Our Roke business enjoyed another year of double-digit revenue growth, which included the strategically important first electronic warfare product sale into the US.

We have continued to focus on improving the quality and the resilience of the business. We have improved the quality of the balance sheet as expensive private placement loan note debt has been refinanced with a market rate revolving credit facility, the pension scheme no longer requires material cash contributions from the Group and working capital has become much less volatile. All this, together with increased market visibility and a better quality order book, has allowed us to commit to invest in the business. This investment in capacity, infrastructure and systems will continue at an elevated level for the next two years and is a key enabler to delivering a stronger business capable of delivering on the opportunities.

Group financial performance

Order intake for continuing operations for 2020 was up 6% to £436.6m (2019: £410.6m), driven by the release of further delivery orders on the HMDS IDIQ contract as well as orders awarded to the Australian and US countermeasures businesses.

Revenue from continuing operations for the year was up 20% to £402.5m (2019: £335.2m), as the countermeasures facilities in Salisbury and Australia were operational for the full year, as well as strong performance in the Sensors & Information segment.

The underlying operating profit from continuing operations of £54.7m (2019: £44.0m) resulted in an underlying operating margin of 13.6% (2019: 13.1%). The increase in margin reflects the improving operational execution in the Countermeasures & Energetics segment.



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

Foreign exchange translation has provided a minor headwind on revenue and profit. While exchange rates have been volatile in the year, there has been a weakening of the US dollar against sterling compared to 2019 with the average rate moving from \$1.26 to \$1.28. On a continuing constant currency basis, restating the current year at the 2019 average exchange rate, revenue would have been £406.4m and underlying operating profit would have been £55.7m, being a headwind of £1.0m on 2020's underlying operating profit.

Total finance expense fell significantly to £3.0m (2019: £4.6m). This was driven by the repayment of the private placement loan notes in November 2019 and the continued focus on reducing intra-period working capital volatility, thus maintaining net debt stability.

This resulted in an underlying profit before tax from continuing operations of £51.7m (2019: £39.4m). The effective tax rate on the underlying profit before tax from continuing operations was 17.6% (2019: 20.1%). The underlying earnings from continuing operations per share was 15.1p (2019: 11.2p).

Statutory operating profit from continuing operations was £46.3m (2019: £31.3m) and after statutory finance expenses of £3.0m (2019: £4.6m), statutory profit before tax from continuing operations was £43.3m (2019: £26.7m), giving statutory earnings per share from continuing operations of 12.3p (2019: 8.2p). The statutory profit from discontinued operations was £nil (2019: £1.2m loss) giving a statutory profit of £34.7m (2019: £21.9m) 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, gains on the movement in the fair value of derivative financial instruments and the tax credit associated with this.

Revenue from discontinued operations fell to £9.5m (2019: £43.4m) and underlying operating loss was £0.1m (2019: £3.5m) primarily as a result of the disposals made in the last two years.

Finance expenses

Total finance expenses of £3.0m were down 35% from £4.6m.

Tax

The continuing underlying tax charge totalled £9.1m (2019: £7.9m) on a continuing underlying profit before tax of £51.7m (2019: £39.4m). The effective tax rate on underlying profit before tax for the year was a charge of 17.6% (2019: 20.1%). The decrease in the continuing effective rate of

tax on the results of the Group is due to prior year tax adjustments and the geographic mix of profits. We expect the future effective tax rate to return to the low twenties.

The continuing statutory tax charge totalled £8.6m (2019: £3.6m) on a continuing statutory profit before tax of £43.3m (2019: £26.7m). The discontinued underlying tax was £nil (2019: £6.2m credit) on an underlying loss before tax of £0.1m (2019: £3.5m).

Earnings per share

Underlying earnings per share from continuing operations was 15.1p (2019: 11.2p) and diluted underlying earnings from continuing operations per share was 14.8p (2019: 11.0p).

Total underlying basic earnings per share was 15.1p (2019: 12.2p) and the statutory basic earnings per share was 12.3p (2019: 7.8p).

Group financial position

Net debt and cash flow

The Group's net debt at 31 October 2020 was £48.2m (2019: £75.7m), representing a net debt to underlying EBITDA (continuing) ratio of 0.65x (2019: 1.24x). IFRS 16 Leases has been adopted in 2020, adding £6.5m to opening net debt. Comparators have not been restated.

The financial health of the Group has continued to improve in a number of aspects during the year. Disciplined working capital practices have been maintained to reduce intra-period volatility. No defined benefit pension contributions were required in the year and none are expected in 2021. The Group is working to achieve further improvements over the medium term.

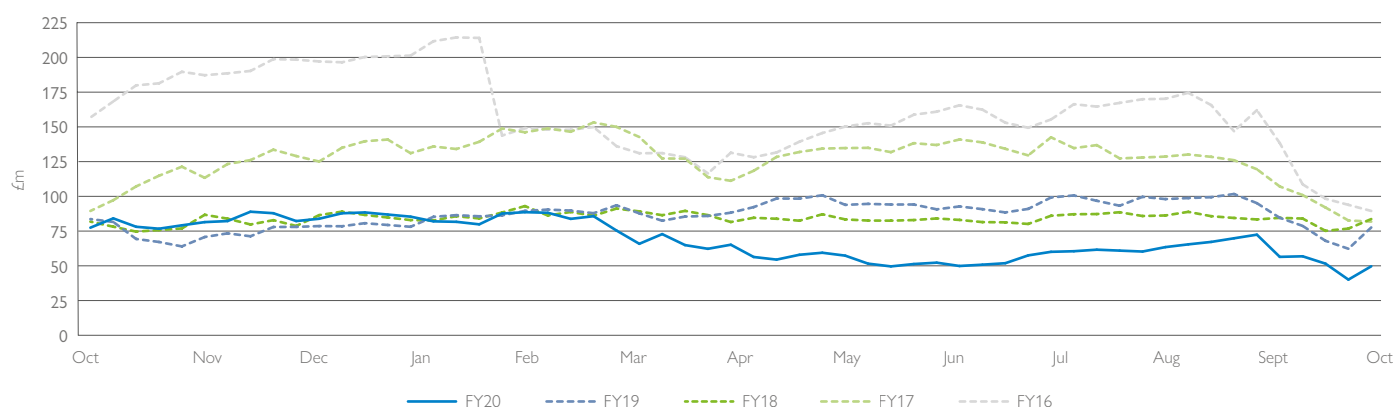
Continuing underlying operating activities generated cash of £82.4m (2019: £63.9m). Continuing underlying cash conversion was 110% (2019: 104%) of continuing underlying EBITDA.

In November 2019 the Group repaid the remaining \$83.6m of private placement loan notes via the use of the £136.7m revolving credit facility which runs to October 2022, which reduced interest costs in 2020.

Working capital

Working capital relating to the continuing businesses was £85.1m (2019: £90.5m), a decrease of £5.4m in a year where revenue has grown by 20%. As a percentage of revenue, working capital has decreased by 6% to 21% at 31 October 2020. The improvement reflects our continued focus on commercial contracting, inventory levels and cash management. In absolute terms all areas of inventory, trade receivables and trade payables have increased as the business has grown. Our focus has been on ensuring this has been executed in a managed and balanced manner and year end trade receivable days of 30 and trade payable days of 26 demonstrate this has been successfully achieved.

Weekly net debt





Group financial position continued

Debt facilities

The Group's principal debt facilities comprised a £136.7m revolving credit facility and a \$10.0m overdraft. These were established in October 2018 with a syndicate of five banks and run until October 2022 with two "one year" options to extend. The Group had £86.4m (2019: £130.2m) 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 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 year.

Retirement benefit obligations

The surplus on the Group's defined benefit pension schemes was £7.6m (2019: £9.6m), measured in accordance with IAS 19 (Revised) *Employee Benefits*.

The surplus relates to the Chemring Group Staff Pension Scheme (the "Scheme"), a UK defined benefit scheme whose assets are held in a separately administered fund. The Scheme was closed to future accrual in April 2012.

The reduction in the surplus has been driven by market movements in the second half of the period following the CV-19 impact on equity and bond markets. The resilience of the Scheme's investment strategy has limited this impact.

The 6 April 2018 triennial valuation showed a technical provisions deficit of £5.8m, which represented a funding level of 94% of liabilities. Deficit recovery payments totalling £6.25m were made prior to 31 December 2018. The Group agreed with the trustees that no further deficit recovery payments are required and the Group was released from the bank guarantee of £7.2m given to the Scheme in respect of future contributions. The next actuarial valuation is due as at 6 April 2021 after which the future funding requirements will be reassessed.

Contingent liabilities

The Group is, from time to time, party to legal proceedings and claims, and is involved in correspondence relating to potential claims, which arise in the ordinary course of business. In addition, the following matters remain open at year end:

- 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 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.

Capital expenditure

The Group continues to invest in the infrastructure of its facilities, with particular focus on enhancing safety and operational performance. In the year £36.9m (2019: £40.7m) was spent on property, plant and equipment.

Significant investment is planned over the next two years in our Countermeasures & Energetics businesses to both recapitalise and modernise facilities and invest in capacity to address expected market demand, the most significant investment being the Tennessee capacity expansion programme. The cost of this is expected to be approximately £50m, with over half being spent at 31 October 2020, and is focused on delivering capacity to meet expected F-35 demand from the US Government.

Research and development

R&D expenditure was £62.0m (2019: £56.2m). Continued investment in R&D is a key aspect of the Group's strategy, and levels of internally funded R&D are expected to be maintained as investment in product development continues, particularly within Sensors & Information. An analysis of R&D expenditure is set out below:

	2020 £m	2019 £m
Customer-funded R&D	52.5	47.2
Internally funded R&D:		
– expensed to the income statement	4.5	5.0
– capitalised	5.0	4.0

Amortisation of development and patent costs was £1.4m (2019: £1.4m).

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, underlying operating cash flow and underlying cash conversion. In addition, EBITDA, net debt, underlying operating profit and revenue on a constant currency basis 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 for planning, budgeting and reporting purposes and for its internal assessment of the operational performance of individual businesses.

The focus of the annual report and accounts is on the results of the continuing operations as the Board believes the shareholders are most interested in the performance and the potential of this part of the Group. An analysis of the results of the discontinued operations is provided in note 5 with commentary on performance on pages 113 and 114.



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

	2020			2019		
	Underlying	Non-underlying	Statutory	Underlying	Non-underlying	Statutory
Group – continuing operations:						
EBITDA (£m)	74.6	0.5	75.1	61.2	(0.6)	60.6
Operating profit/(loss) (£m)	54.7	(8.4)	46.3	44.0	(12.7)	31.3
Profit/(loss) before tax (£m)	51.7	(8.4)	43.3	39.4	(12.7)	26.7
Tax (charge)/credit (£m)	(9.1)	0.5	(8.6)	(7.9)	4.3	(3.6)
Profit/(loss) after tax (£m)	42.6	(7.9)	34.7	31.5	(8.4)	23.1
Basic earnings/(loss) per share (pence)	15.1	(2.8)	12.3	11.2	(3.0)	8.2
Diluted earnings/(loss) per share (pence)	14.8	(2.8)	12.0	11.0	(2.9)	8.1
Group – discontinued operations:						
(Loss)/profit after tax (£m)	(0.1)	0.1	—	2.7	(3.9)	(1.2)
Sectors – continuing operations:						
Sensors & Information EBITDA (£m)	30.7	—	30.7	29.3	—	29.3
Sensors & Information operating profit (£m)	27.4	(6.4)	21.0	26.3	(6.6)	19.7
Countermeasures & Energetics EBITDA (£m)	56.5	—	56.5	41.7	—	41.7
Countermeasures & Energetics operating profit (£m)	39.9	(2.5)	37.4	27.5	(5.5)	22.0

We present a measure of constant currency revenue and operating profit. This is calculated by translating our results for the year ended 31 October 2020 at the average exchange rates for the comparative year ended 31 October 2019.

	2020 £m	2019 £m	Growth %
Revenue	402.5	335.2	20%
Effect of using prior period FX translation rates	3.9		
Revenue at constant currency	406.4	335.2	21%
Underlying operating profit	54.7	44.0	24%
Effect of using prior period FX translation rates	1.0		
Underlying operating profit at constant currency	55.7	44.0	27%

The Group manages its finance costs and tax on a central or regional basis and therefore the Board believes the use of underlying operating profit or EBITDA is the best way of monitoring the performance of operating businesses.

The strategic report includes both statutory and adjusted measures, the latter of which, in management's view, reflects the underlying performance of the business and provides a more meaningful comparison of how the business is managed and measured on a day-to-day basis.

Our APMs and KPIs are aligned to our strategy and together are used to measure the performance of our business and form the basis of the performance measures for remuneration.

Adjusted results exclude certain items because, if included, these items could distort the understanding of our performance for the year and the comparability between the periods.

Management considers non-underlying items to be:

- amortisation of acquired intangibles;
- discontinued operations;

- exceptional items, for example relating to acquisitions and disposals, restructuring costs, impairment charges and legal costs;
- 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 year figures.

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

Further details are provided in note 3.

The adjustments to continuing operations comprise:

- amortisation of acquired intangibles of £8.9m (2019: £12.1m); and
- profit on the movement in the fair value of derivative financial instruments of £0.5m (2019: £0.6m loss).

The discontinued operations loss after tax primarily relates to the businesses which were "held for sale" at 31 October 2018, which have subsequently been divested from the Group or closed during the last two years:

- operating loss of £0.1m (2019: £3.5m);
- exceptional items of £0.1m profit (2019: £3.8m loss); and
- tax credit on the above of £nil (2019: £6.1m credit).

Andrew Lewis
Group Finance Director
15 December 2020



Managing risk

We continue to manage key risks to ensure the delivery of the Group strategy.

Key roles and responsibilities for the Group's risk management strategy

The Board

- Overall responsibility for risk management
- Defines the Group's risk appetite

Audit Committee

- Reviews the effectiveness of the Group's risk management framework and systems of internal control
- Oversees the effectiveness of the Group's internal audit arrangements

Risk Management Committee

- Oversees the implementation of the Group's risk management framework
- Monitors compliance with the Group's internal control systems
- Maintains the Group risk register

Business management

- Responsible for the implementation of the Group's risk management framework at the operational level
- Maintains business unit risk registers and provides input to the Risk Management Committee
- Responsible for compliance with internal controls

Risk management organisation

The Board is responsible for determining the nature and extent of risks it is willing to accept in delivering the Group's strategy and running the Group's operations, and ensuring that risks are effectively managed across the Group.

The Board reviews the Group risk register on a regular basis, and considers whether the Risk Management Committee has appropriately identified the principal risks to which the Group is exposed.

The Audit Committee is responsible for reviewing in detail the effectiveness of the Group's systems of internal control, including financial, operational and compliance controls, and its risk management systems. The Audit Committee also reviews the effectiveness of the Group's internal audit arrangements.

The Risk Management Committee is responsible for overseeing the implementation of the Group's risk management framework, and is also responsible for identifying the principal risks to which the Group is exposed, monitoring key mitigation plans and maintaining the Group risk register. The Risk Management Committee also reviews the business unit risk registers on a regular basis and considers input from the US Risk Management Committee, which has been constituted to oversee risk within the US operations.

The current members of the Risk Management Committee are:

- Michael Ord (Group Chief Executive)
- Bill Currer (President, US)
- Sarah Ellard (Group Legal Director & Company Secretary)
- Andrew Lewis (Group Finance Director)
- Clancy Murphy (Chief People Officer)
- Dan Reinke (Acting Group HSE Director)

Risk management policy and framework

The Group's risk management policy sets out the Group's approach to risk management, including its risk appetite; the framework for assessing, managing and monitoring risk within the business; and the key roles and responsibilities for the oversight and implementation of the Group's risk management systems and controls.

The Group's risk management framework draws fundamentally from the "Three Lines of Defence Methodology", with the "First Line" being day-to-day management of risk and maintenance of effective control procedures at individual businesses. The "Second Line" comprises various risk management and control functions established at the corporate management level, which are designed to enhance and monitor the First Line. The "Third Line" comprises the Group's internal audit function, utilising an external firm of auditors, which reports directly to the Audit Committee.



Approach to risk management

The management of each business is responsible for the identification, management and reporting of local risks, in accordance with the Group's risk management framework. The management of each business is also responsible for the maintenance of business risk registers and the implementation of mitigation plans.

Each business is required to maintain a risk register identifying their key risks. The risk registers include an analysis of the likelihood and impact of each risk – before and after mitigation actions are taken to manage the risk, together with details of the mitigation plans and progress against them. Each risk is allocated an owner, who has responsibility for managing the risk.

The business risk registers are updated locally on a quarterly basis, and are reviewed in detail by the Group Chief Executive, the Group Finance Director and other members of the Executive Committee at quarterly business review meetings with each of the businesses. The US Risk Management Committee also reviews the risk registers for the US businesses, considers US corporate-level risks and maintains a consolidated US risk register.

The Risk Management Committee meets quarterly and, utilising the input from the business risk registers and the US risk register, identifies those principal risks which are material to the Group as a whole. The Risk Management Committee also considers corporate-level risks and emerging risks, as referenced below. These risks are collated on the Group risk register, together with details of the applicable mitigation plans and risk owners.

The Group has implemented an Operational Framework, incorporating a broad range of policies and procedures which are required to be adopted by all businesses. A half-yearly operational assurance process is a fundamental part of the Operational Framework and provides an assessment of compliance with the Operational Framework policies across the Group. The output of the operational assurance process provides additional visibility on risks across the Group and is utilised by the Risk Management Committee as a further input to the Group risk register. The operational assurance process also provides assurance to the Board that the Group's internal systems and controls are operating effectively.

The full Group risk register is reviewed by the Board on a half-yearly basis and key individual risks are reviewed at every Board meeting.

Key areas of focus during the year

During the past year, we have continued to improve our risk management systems, with specific focus in the following areas:

- a CV-19 Playbook was introduced, incorporating all of our Group-wide controls for the management of CV-19-related risks within our business operations;
- our HSE Management Framework has been updated, and we have implemented new standards in relation to the management of process safety events and asset integrity;
- enhanced anti-bribery and corruption procedures have been implemented across the Group, in order to further mitigate the potential risk associated with the engagement of third party sales partners, service providers and suppliers;
- we have implemented additional IT and cyber-security standards;
- we have refreshed our assessment of the potential impact of Brexit on the Group and developed mitigation plans; and
- our internal audit programme has been further refined to align with the key risks on the Group risk register.

In addition, we have continued to reinforce the accountability and responsibility for risk management in a number of key areas such as safety at all levels of the organisation.

Principal risks

The current Group risk register comprises risks in seven key risk areas, covering health, safety and environment risks, strategic risks, financial risks, operational risks, people risks, legal and compliance risks, and reputational risks. Details of the principal risks are set out on pages 38 to 44.

CV-19

The management of risks associated with CV-19 was a key focus during the year. Further details on the mitigation actions taken to manage these risks are set out on pages 6 and 7. CV-19 continues to present a risk to the Group's operations and we continue to take all appropriate actions to protect and safeguard our employees, and ensure continuity of our businesses.

Brexit

Whilst the UK has now exited from the EU and remains in a transition period, the potential impact on future trading arrangements between the UK and the EU is unknown. This may impact the relationships between our UK businesses and their customers and suppliers in the EU, and the freedom of movement of people across borders. Our UK businesses have updated their business continuity plans to mitigate the anticipated impacts as far as possible, based on the latest available information, but the full impact remains subject to some uncertainty. Brexit-related risks only impact our UK businesses and, given the mitigation actions taken, we do not consider that Brexit is a Group-level strategic risk but the risk is reflected in the individual risk registers of the businesses concerned.

Emerging risks

The current UK Corporate Governance Code requires the Board to undertake a robust assessment of the emerging risks that may impact the Group in the future. This requirement has been reflected in the Group's risk management processes and emerging risks are now considered by the Risk Management Committee when compiling the Group risk register.

Emerging risks are identified through discussions with both external and internal subject matter experts and other stakeholders, including customers and regulators, and through horizon scanning of future developments in areas relevant to the Group's business operations.

Certain emerging risks relating to future technological, regulatory and macro-economic changes are reflected on the Group risk register and mitigation plans implemented accordingly. However, other emerging risks have also been identified, where it is not yet possible to determine the potential impact on the Group. Climate change is an example of such a risk, which could impact on the Group's businesses as the result of the increasing frequency of extreme weather events and additional regulations focused on minimising the environmental impact of our operations and products. We are currently developing our internal processes to ensure that we are in a position to report in line with the recommendations of the Taskforce on Climate-Related Financial Disclosures from 2023 onwards.

Risk review

The Board carries out an annual review of the effectiveness of the Group's systems of internal control and risk management systems. The Board confirms that there is an ongoing process for identifying, evaluating and managing the principal risks faced by the business, and robust systems of internal control and risk management were in place throughout the year under review and have remained in place up to the date of approval of these financial statements.

The Board acknowledges, however, that the internal control systems can only provide reasonable, not absolute, assurance against mismanagement or loss of the Group's assets. The Board therefore continues to take steps to embed internal control and risk management further into the operations of the Group, and to address any areas for potential improvement which come to the attention of management and the Board.



Principal risks and uncertainties

Risk management in action

Details of the principal risks and uncertainties which could have a material impact on the Group's business model, strategy, future performance or reputation are set out below. The principal risks are identified by the Risk Management Committee based on the likelihood of occurrence and the potential impact on the Group as a whole. The table below identifies the inherent risk (after mitigation actions) associated with each risk area and whether the trend in the risk from the Group's perspective is increasing, decreasing or unchanged.

The overall risk profile for the Group continued to improve during the year and the Group risk register reflects the following changes to principal risks:

- risks associated with occupational health and safety continued to reduce, reflecting good progress on the implementation of the Group's three-year HSE strategy and an increased focus on asset integrity within our operations;
- market-related risk has increased, reflecting the potential for future defence budget constraints amongst our key customers as a consequence of CV-19 and the potential impact of the change in the US administration, albeit this risk is likely to have more of an impact from 2022 onwards;
- financial risks have reduced as the Group continues to deliver strong cash generation and reduce indebtedness; and
- the inherent risk associated with cyber threats and system failures has increased, acknowledging that the continuing changes in the nature of cyber attacks and the increased sophistication of the methods employed are an increasing risk for all businesses.

In addition to the risks disclosed below, the Risk Management Committee also monitors and manages a wide range of other risks to which the Group may be exposed. All of the principal risks are linked to the Group's strategy, further details of which are set out on page 22.

Inherent risk: ● High ● Medium ● Low

Trend: ↑ Increasing ↔ Stable ↓ Decreasing

Health, safety and environment risks

Occupational and process safety

Risk and potential impacts	Mitigation actions/factors	Inherent risk level, change during the year and outlook
The Group's operations involve energetic materials that by their nature have inherent safety risks. • Incidents may occur which could result in harm to employees, the temporary shutdown of facilities or other disruption to manufacturing processes. • The Group may be exposed to financial loss, regulatory action and potential liabilities for workplace injuries and fatalities.	• Safety reinforced as a core value. • Continued emphasis on the promotion of a culture which puts safety first and encourages employees to take personal responsibility for their actions. • HSE Strategy and HSE Management System Framework Standard fully implemented within the businesses. • Robust major accidents hazard analysis process adopted across the Group. • Asset integrity review completed using external consultants at higher hazard sites and new asset integrity standard adopted. • HSE "Second Line of Defence" assurance process established, supplemented by an audit by external consultants of higher hazard sites. • Fundamental Safety Rules issued to all employees Group wide. • Incident investigation and crisis management standards adopted. • Increased capital investment in older facilities to improve safety and reliability.	● ↓ Through the implementation of our major accident hazard review process, together with increased reporting and investigation of process upset conditions, we have identified and taken further actions to reduce the likelihood of a major energetic event. In addition, we conducted asset integrity reviews during the year and we are strengthening our asset integrity programmes. We are also investing in new automated production systems and improving process controls for our legacy operations. Our lost time incident rate reduced from 0.40 to 0.24 during the year and our total recordable injury frequency rate matched 2019 at 0.85. There was also a reduction in the number of injuries resulting from energetic ignitions during the year, with one recordable injury requiring medical treatment, compared to two such incidents in the prior year. We hope to see further improvements in process safety in 2021, as we implement the second year of our three-year HSE Strategy and continue with our capital investment programme.  See also: Health and safety Page 48



Health, safety and environment risks continued

Environmental laws and regulations

Risk and potential impacts	Mitigation actions/factors	Inherent risk level, change during the year and outlook
The Group's operations and ownership or use of real property are subject to a number of federal, state and local environmental laws and regulations. At certain sites currently or formerly owned or operated by the Group, there is known or potential contamination for which there is, or may be, a requirement to remediate or provide resource restoration. The Group could incur substantial costs, including remediation costs, resource restoration costs, fines and penalties, or be exposed to third party property damage or personal injury claims, as a result of liabilities associated with past practices or violations of environmental laws or non-compliance with environmental permits.	- Monitoring programmes established at certain sites and appropriate financial provisions held. - Environmental liability insurance procured for certain risks. - Environment Committee established.	  The sale or closure of several sites during the last two years has reduced the Group's exposure to environmental risks. A new wastewater treatment facility became operational at the Chemring Nobel site during the year, which will significantly reduce its future environmental impact. We have implemented a more centralised approach to the management of our environmental performance, recognising that minimising our environmental impact and addressing climate change related risks is become increasingly important.  See also: Environment Page 51

Strategic risks

Market-related

Risk and potential impacts	Mitigation actions/factors	Inherent risk level, change during the year and outlook
Defence spending depends on a complex mix of political considerations, budgetary constraints and the requirements of the armed forces to address specific threats and perform certain missions. Overall defence spending may therefore be subject to significant yearly fluctuations and there may also be downward pressure on defence budgets in certain key programme areas. The Group's profits and cash flows are dependent, to a significant extent, on the timing of award of defence contracts. In general, the majority of the Group's contracts are of a relatively short duration and, with the exception of framework contracts with key customers, do not cover multi-year requirements. - The Group's financial performance may be adversely impacted by lower defence spending by its major customers, either generally or in relation to certain programmes. - Short-term trading and cash constraints may impact on the Group's ability to invest in longer-term technologies and capabilities. - Unmitigated delays in the receipt of orders or cancellation of existing contracts could affect the Group's financial performance. If the Group's businesses are unable to continue trading profitably during periods of lower order intake, financial performance will deteriorate and assets may be impaired.	- Continual assessment of alignment of planned organic growth strategies and technology roadmaps against government priorities for future funding. - Increased focus on the development of commercial products and services. - Focus on organisational development to ensure the business is appropriately structured to meet current and future needs and provide resilience in difficult market conditions. - Continued focus on order intake as a key performance indicator. - Pursuit of long-term, multi-year contracts with major customers wherever possible. - Global business development capabilities established in the Countermeasures & Energetics and Sensors & Information segments. - Increased collaboration between businesses across the Group on establishing shared routes to market.	  We recognise that the CV-19 pandemic is impacting defence budgets globally and whilst not immune to this, our businesses are expected to remain relatively resilient in the near term. The longer-term outlook for defence spending is less clear and we expect further clarity over the next year. Exiting the commoditised energetics businesses has reduced the Group's exposure to volatile Middle East markets and highly competitive contracts, the timing of which is often difficult to predict. Closer collaboration between our countermeasures businesses is creating a joined-up customer approach which is enabling us to better promote our global capabilities.  See also: Target markets Page 20



Principal risks and uncertainties continued

Strategic risks continued

Political

Risk and potential impacts	Mitigation actions/factors	Inherent risk level, change during the year and outlook
The Group is active in several countries that are suffering from political, social and economic instability. In addition, there is a significant risk of political unrest and changes in the political structure in certain non-NATO countries to which the Group currently sells. - The Group's business in certain countries may be adversely affected in a way that is material to the Group's financial position and the results of its operations. - Political changes could impact future defence expenditure strategy and the Group's ability to export products to certain countries.	- Relationships maintained at political level in key countries and with senior customer representatives. - Financing arrangements implemented, including letters of credit and advance payments, for contracts with high-risk customers. - Political risks insurance procured in certain circumstances. - Continued focus on the development of commercial business across the Group, particularly in key home territories.	 We have refocused our business development and marketing activities in our key home markets in the niche segments in which we operate. The sale of the commoditised energetics businesses has also reduced our exposure to more challenging territories. The impact of the change in the US administration on defence expenditure is not expected to have a near-term impact on the Group and we expect further clarity on the longer-term implications over the next year.  See also: Target markets Page 20

Contract-related

Risk and potential impacts	Mitigation actions/factors	Inherent risk level, change during the year and outlook
The Group's government contracts may be terminated at any time and may contain other unfavourable provisions. The Group may need to commit resources in advance of contracts becoming fully effective, to ensure prompt fulfilment of orders or to enable conditions precedent to be met. - The Group may suffer financial loss if its contracts are terminated by customers, or a termination arising out of the Group's default may have an adverse effect on its ability to re-compete for future contracts and orders. - Unfavourable commercial contract terms may adversely impact the Group's working capital position, particularly if the receipt of payments by the Group is delayed.	- The Commercial Policy within the Operational Framework requires central approval for certain contractual risk exposures. - Commercial and contract risk management training programme implemented. - Stage payments negotiated with customers wherever possible, in order to improve working capital management.	 The implementation of the Operational Framework has significantly increased our visibility on commercial and contracting practices across the Group, and is enabling us to manage contractual risk exposures more effectively.

Technology

Risk and potential impacts	Mitigation actions/factors	Inherent risk level, change during the year and outlook
The Group may fail to maintain its position on key future programmes due to issues with capability development, technology transfer or cost-effective manufacture. The Group needs to continually add new products to its current range, through innovation and continuing emphasis on research and development. New product development may be subject to delays, or may fail to achieve the requisite standards to satisfy volume manufacturing requirements and the production of products against high reliability and safety criteria to meet customer specifications. - Failure to obtain production contracts on major development programmes may significantly impact the future performance and value of individual businesses. - Failure to complete planned product development and upgrades successfully may have financial and reputational impacts, and may result in obsolescence or loss of future business.	- Close relationships maintained with customers on all key future programmes. - New Product Development Policy and procedures adopted, to align the approach to future technology investment across the Group. - Technology investments aligned with the five-year plan. - Working groups established to drive and co-ordinate technology growth in certain key areas such as Countermeasures & Energetics and Sensors & Information.	 Innovation is one of our core values. Good progress was made on the US Programs of Record during the year and this will continue to be a major area of focus in the year ahead. Roke continues to see strong growth in its R&D service activities and is positioning itself to exploit growing opportunities in the industrial sector.



Financial risks

Risk and potential impacts	Mitigation actions/factors	Inherent risk level, change during the year and outlook
The Group is exposed to a range of financial risks, both externally driven, such as an unexpected movement in foreign exchange rates, and specific to the Group. Specific financial risks could arise out of a disruption to operations; failure to deliver strategic objectives, including planned investment; or customer-related events, including defaults on the payment of debts. As a result of a number of past events, the Group is exposed to a number of contingent liabilities which may or may not result in future cash outflows. (Further details are contained in note 34 of the Group financial statements). The Group may also face an increased funding requirement for its legacy UK defined benefit pension scheme. • The Group may fail to comply with financing covenants and be unable to meet debt repayments, leading to withdrawal of funding or additional costs of maintaining funding. • Operational results may be impacted by unexpected financial losses or increased costs. Further details of the financial risks to which the Group is potentially exposed and details of mitigating factors are set out in the financial review and note 21 of the Group financial statements.	• Committed banking facilities in place to October 2022. • Regular monitoring of actual and forecast financial covenants. • Capital approval processes in place, requiring Board approval for significant projects. • Hedging policy applied for significant foreign transactions. • Advance payments and letters of credit required from customers with a heightened payment risk. • Close dialogue maintained with the trustees of the pension scheme on investment and funding matters.	  The final tranche of private placement loan notes was repaid in November 2019. The year-end bank covenant of net debt: EBITDA was 0.65x, well within the covenant limit of 3.0x. At the year end, the legacy UK defined benefit pension scheme was £7.6m in surplus (on an IAS 19 basis). No contributions are currently required in 2021. The next triennial actuarial valuation of the scheme will be carried out as at April 2021.  See also: Financial review Page 32



Principal risks and uncertainties continued

Operational risks

Risk and potential impacts	Mitigation actions/factors	Inherent risk level, change during the year and outlook
The Group's manufacturing activities may be exposed to business continuity risks, arising from plant failures, supplier interruptions, quality issues or large scale employee absences. Planned new facility developments may be delayed as a result of operational issues. - Interruptions to production and sales could result in financial loss, reputational damage and loss of future business. - A delay in completing new manufacturing facilities, such as those being built in Tennessee, could constrain capacity and limit future business growth.	- Major accident hazard analysis process and upset condition management standard implemented across the Group. - Key performance indicators adopted, to provide better visibility on operational performance and to facilitate early identification of potential production and quality issues. - Business continuity plans established across the Group. - Increased capital investment in legacy facilities to improve safety and reliability. - Asset integrity programme initiated. - Detailed plans developed for all significant capital investment projects and additional dedicated resource employed to oversee key projects. - CV-19 Playbook implemented. - Business interruption risks insured where appropriate.	  A three-year capital investment programme was initiated in 2019. This is designed to mitigate a number of operational risks through a plant automation and modernisation programme across the Group. We have also implemented a Group-wide asset integrity programme to improve the resilience of our operations. Construction and fit-out of the new automated manufacturing facilities in Tennessee continues to progress in line with plan. Capital investment projects initiated at our facilities in Scotland and Norway. The insurance claim in respect of the August 2018 incident at the UK countermeasures site yielded £5.2m during the year. CV-19 required us to respond to fast changing regulations to ensure production and customer acceptance could continue which was handled without major disruption.  See also: Group Chief Executive's review and Health and safety Pages 11 and 48

People risks

Risk and potential impacts	Mitigation actions/factors	Inherent risk level, change during the year and outlook
There is a risk that the market for talent in key areas of expertise becomes more challenging. Allied to this there is a risk of loss of key personnel. As the shape of the Group's business changes and with an increased focus in high technology areas, the Group may fail to build and retain an appropriate skill base to facilitate successful competition in new markets and product areas. Employees may not be fully engaged with the Chemring journey, purpose, products, customers and values. - Failure to recruit sufficient suitably qualified personnel in key areas of the business may result in the Group failing to achieve its future growth aspirations. - Failure to build and retain key skills will lead to a reduction in the ability to innovate or to win and deliver new contracts. - If key personnel are not fully engaged with the business purpose, values and products, and are not appropriately incentivised, the ability of the Group to retain them will be compromised. This could result in loss of management expertise and knowledge, and the Group's operations may suffer as a consequence.	- Chemring values of Safety, Excellence and Innovation established. - Ongoing strengthening of leadership teams across the Group. - Development framework implemented across the Group, focusing on developing management and leadership skills and behaviours particularly amongst our line manager and supervisor population. - Ongoing review of capability requirements against the business strategy. - Culture review completed, facilitating the development of a framework to support the evolution of the new Chemring culture. - Employment Voice real-time engagement tool deployed across the Group. - Incentive arrangements enhanced to encourage collaboration and create a Group focus at senior level.	  We have made good progress on the implementation of our development framework during the year, with over 340 line managers and supervisors having participated in a structured development programme. We have also focused on communications using a wide range of formal and informal challenges, both at the corporate level and within individual businesses. The deployment across the Group of Employee Voice has enabled us to monitor employee sentiment on a continuous basis and gives employees the ability to provide feedback on changes as they occur.  See also: Our people Page 55



Legal and compliance risks

Compliance and corruption

Risk and potential impacts	Mitigation actions/factors	Inherent risk level, change during the year and outlook
The Group operates in over 50 countries worldwide, in a highly regulated environment, and is subject to the applicable laws and regulations of each of these jurisdictions. The Group must ensure that all of its businesses, its employees and third parties providing services on its behalf comply with all relevant legal and regulatory obligations. The nature of the Group's operations could also expose it to government and regulatory investigations relating to safety and the environment, import-export controls, money laundering, false accounting, and corruption or bribery. The Group requires a significant number of permits, licences and approvals to operate its business, which may be subject to non-renewal or revocation. - Non-compliance could result in administrative, civil or criminal liabilities, and could expose the Group to fines, penalties, suspension or debarment, and reputational damage. - Loss of key operating permits and approvals could result in temporary or permanent site closures, and loss of business.	- Ethics & Compliance Committee established to oversee compliance across the Group. - Operational Framework in place, mandating compliance with a range of policies and procedures covering a wide range of legal and regulatory requirements. - Half-yearly operational assurance process established as part of the Operational Framework. - Central legal and compliance function assists and monitors all Group businesses, supported by dedicated internal legal resource in the US. - Code of Conduct stipulates the standards of acceptable business conduct required from all employees and third parties acting on the Group's behalf. - Updated Bribery Act Compliance Manual implemented, incorporating enhanced anti-bribery policies and procedures.	  The introduction of the Operational Framework and the associated operational assurance process has fundamentally changed the management of legal and compliance risks across the Group. We are continuing to refine the assurance process, which will become a key aspect of the internal audit programme going forward. In the year ahead, we will be implementing our Group-wide on-line compliance system – the Chemring Compliance Portal. This will host our Operational Framework policies and associated training material, and will automate our anti-bribery processes. The new system will provide much greater visibility on compliance across the Group.  See also: Ethics and business conduct Page 59

Product liability and other customer claims

Risk and potential impacts	Mitigation actions/factors	Inherent risk level, change during the year and outlook
The Group may be subject to product liability and other claims from customers or third parties, in connection with: (i) the non-compliance of products or services with the customer's requirements, due to faults in design or production; (ii) the delay or failed supply of the products or the services indicated in the contract; or (iii) possible malfunction or misuse of products. The Group may also be required to undertake a product recall in certain circumstances. As many of the Group's products are single-use devices, it is often impossible to conduct functional testing without destroying the product, and this increases the risk of possible product failure, either in use or during customers' own sample-based functional tests. - Substantial claims could harm the Group's business and its financial position. In addition, any accident, product failure, incident or liability, even if fully insured, could negatively affect the Group's reputation among customers and the public, thereby making it more difficult for the Group to compete effectively. - Material breaches in the performance of contractual obligations may also lead to contract termination and the calling of performance bonds.	- Rigorous production processes adopted, monitoring critical parameters on a batch or unit basis. - State-of-the-art techniques, including statistical process control and Six Sigma, applied and, where appropriate, automated processes introduced. - Detailed assessments of incoming components and materials conducted to ensure compliance with specifications. - Product liability claims from third parties for damage to property or persons generally covered by insurance.	  We continue to focus on the establishment of a continuous improvement culture across the Group, and to promote customer focus and contract delivery as required behaviours at all levels of the organisation. This approach, together with our ongoing investment in updated manufacturing facilities and increased focus on contractual risk management, will help to further mitigate risks in this area in future. Our exit from the commoditised energetics business had also reduced our risk exposure in this area.



Principal risks and uncertainties continued

Reputational risks

Cyber-related risks

Risk and potential impacts	Mitigation actions/factors	Inherent risk level, change during the year and outlook
Cyber-security and related risks are key emergent areas of critical importance for all businesses, particularly for those involved in the defence and security sector. Threats can emanate from a wide variety of sources and could target various systems for a wide range of purposes, making response particularly difficult. The data and systems which need to be protected include customer-classified or sensitive information, commercially sensitive information, employee-related data and safety-critical manufacturing systems. • The Group may suffer from critical systems failures, or its intellectual property, or that of its customers, may fall into the hands of third parties. • In addition to business interruption and financial loss, the Group may suffer reputational damage, and its business of providing cyber-security services to customers may be irreparably damaged.	• Threat assessment completed and an action plan to counter the Group's identified major threats implemented. • A number of cyber-security defence measures adopted, encompassing, as appropriate to the nature of the threat and sensitivity of data or systems being protected, hardware, software, system, process or people-based solutions. • Where appropriate, government or commercial accreditation of networks and systems obtained in support of the overall cyber-security programme. • All UK businesses achieved "Cyber Essentials" accreditation as a minimum standard, and US businesses either achieved, or are working towards, compliance with the US DFARS "CMMC" standard. • IT and security systems review included within the internal audit programme.	  We have an ongoing programme to address IT and cyber-security but the threats in this area continue to evolve and we therefore need to ensure that our security arrangements evolve appropriately in response. This was a specific area of focus for our internal audit programme in 2020 and we are developing a plan to address the recommendations arising out of that review.



Viability statement

Assessing our resilience

In accordance with the UK Corporate Governance Code, the Board is required to undertake an assessment of the long-term viability of the Group.

Assessment of viability and going concern

The Group's business activities, key performance indicators, and principal risks and uncertainties are set out within the strategic report on pages 1 to 62.

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

As part of 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 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 macro-economic factors, particularly interest rates and foreign exchange rates;
- the status of the Group's existing financial arrangements and associated covenant requirements;
- progress made in developing and implementing cost reduction programmes and operational improvements;
- the availability of mitigating actions should business activities fall behind current expectations, including the deferral of discretionary overheads and restricting cash flows; 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 in, and the potential impact of, CV-19 in the short and medium-term, and are, in particular, focused 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 guidance on social distancing measures, and the

impact of the current situation on the Group's supply chain. The directors have modelled a severe but plausible downside scenario for CV-19, whereby the Group experiences a 25% reduction in production capacity for a six month period. Throughout this severe but plausible downside scenario, the Group continues to have significant liquidity headroom on its existing facilities and against the revolving credit facility covenants. The CV-19 outbreak is not currently having any material impact in relation to these risks or any other potential impacts; however, the directors are monitoring the situation closely.

After consideration of the above, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to support the going concern basis in preparing the financial statements.

Long-term viability

The directors have also assessed the Group's viability over a three-year period to October 2023 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 2023.

The directors have chosen a three-year period to assess viability to reflect the characteristics of the Group's end markets and their contracting arrangements. These range from multi-year contracts such as the US Programs of Record to shorter-term orders such as those awarded to Roke.

In considering our viability statements we have considered the principal risks and uncertainties discussed in the strategic report and assessed the impact. The impact of CV-19 on viability is clearly a consideration for all companies at this time. Our operations have been designated as critical to the defence and national security industrial base in all territories in which we operate in. All our businesses remain open with business continuity plans mobilised at every location.

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 macro-economic environment, including how CV-19 may impact the economy and future government policy and spending, underperformance in executing the Group's strategy, failure to deliver operational improvements and material movements in foreign exchange rates. 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, including the CV-19 scenario referred to above, 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 and the forecasts show compliance with covenants under the revolving credit facility.



Committed to a sustainable future

Chemring acknowledges its responsibilities 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 safe, sound and ethical business conduct at all times at all of our locations.

Purpose

Innovating to protect people, platforms, missions and information from constantly changing threats.

Vision

To be a leading provider of critical and innovative technologies that detect and protect people, platforms, missions and information against constantly changing threats.

The Board is aware of the increasing interests of its shareholders in the way in which the company is managing its sustainability agenda and in particular its environmental, social and governance ("ESG") related risks. Whilst our approach to sustainability continues to evolve we are committed to implementing transparent policies and procedures, and to fostering an inclusive culture across the Group where everyone does the right thing and takes responsibility for their actions. In doing so we will build a sustainable company of which all our stakeholders can be proud, now and in the future.

Michael Ord, the Group Chief Executive, is the director responsible for corporate responsibility across the Group and is supported by other members of the Group's Executive Committee in ensuring that the Group meets its duty to present and future generations.

Our approach to sustainability

The long-term success of the Chemring business can only be enhanced by a positive interaction with all of our stakeholders and therefore a positive and engaged approach to corporate responsibility and sustainability is important to us.

Our approach is focused around the following key areas:

- health and safety;
- environment;
- people; and
- ethics and business conduct.

Our approach to corporate responsibility and sustainability is embedded within the business units and all senior leaders have specific objectives around these areas identified which are linked to their incentive plans.



"Green team" in Tennessee



Our values in action



The “Green team” in Tennessee

The “Green team” at our US countermeasures site in Tennessee is driving a “zero waste to landfill” programme. Non-hazardous waste such as scrap wood, plastic, cardboard and metal from both the site and the local elementary school is now collected and recycled. In 2020, 70% of our non-hazardous waste in Tennessee was diverted from landfills.



ESG highlights



Health and safety

TRIF rate

0.85

(2019: 0.85)

Process safety sub-committee formed and asset integrity standard developed



Environment

Electricity usage (Mwh)

87,500

(2019: 85,500)

Water consumption (m³)

1.27m

(2019: 1.28)

Environmental committee formed and review underway



People

100%

of line managers participated in our development programme as part of the Development Framework

Our Early Careers Programme has led to a record number of apprentices joining Chemring in 2020



Ethics and business conduct

Improved Board diversity

37.5%

of our Board are female

Ethics & Compliance Committee formed



Establishing a strong health and safety culture

Our goal is zero harm, not as a statistical target but as a moral imperative, which will be achieved by establishing a strong proactive safety culture.

Policies and practices

The Board recognises that the highest levels of safety are required in order to protect employees, product users and the general public. The Board believes that all incidents and injuries are preventable, and that all employees have the right to expect to return home safely at the end of every working day.

The Group Chief Executive has overall responsibility for health, safety and environmental matters across the Group. The Group HSE Director reports directly to the Group Chief Executive, and is responsible for the effective administration and implementation of the Group's health, safety and environment strategy. The Group HSE Director is a member of the Executive Committee and reports on the performance of all businesses against agreed targets and objectives. The Group Chief Executive reports monthly to the Board on all key health and safety issues.

The Board requires that all businesses systematically manage their health and safety hazards, set objectives and monitor progress by regular measurement, audit and review. Each managing director is responsible for the management of health and safety within their business, and for providing adequate resources to satisfy the Board's requirements. All managing directors have health and safety-related objectives incorporated within their annual incentive plan.

Managers and supervisors in the Group's businesses are required to enforce procedures, and to provide leadership and commitment to promote and embrace a positive health and safety culture. The Board

emphasises the importance of individual responsibility for health and safety at all levels of the organisation, and expects employees to report potential hazards, to be involved in implementing solutions and to adhere to rules and procedures.

A key element in the continuous improvement of health and safety management is sharing best practice and lessons learnt from incidents across the Group's businesses and the wider industry. Accidents, incidents and near misses are investigated, with actions generated to prevent recurrence.

Achievements

2020 has been an unprecedented year due to the CV-19 pandemic. Whilst this created a need for special focus, we have still maintained progress in line with our health, safety and environmental ("HSE") strategy, with a focus on embedding the processes we implemented last year around the themes of:

- control of major accident hazards;
- injury reduction; and
- HSE risk management.

As a result of the restrictions associated with CV-19, the HSE milestones were reviewed to reduce travel and keep to an absolute minimum the need for person-to-person contact. Actions taken in delivering the HSE plan included:

- implementation of a travel risk management process;
- development of a revised Crisis Management Plan;
- formation of HSE sub-committees with focus in the areas of environment and process safety;
- completion of a Group-wide review of asset integrity; and
- a review of the HSE strategy.

Control of major accident hazards

Our Countermeasures & Energetics businesses are required to manage major accident hazards which are governed by stringent legislation within their respective operating countries. Over the last two years, we have implemented a number of processes to enhance our focus in this area by ensuring we design, maintain and operate with integrity. We continue to invest in modern processes and technology to remove the employees from exposure to energetic hazards. During the design of these processes we have placed more scrutiny on the application of process hazard analysis.



Our values in action



Safety Week

During September 2020, Chemring held its first ever Group-wide Safety Week to encourage people to think, act and protect in relation to safe behaviours and practices. With lots of different events and activities, Safety Week proved to be a strong engagement exercise, so much so that the week is to become an annual event that will grow year on year. All sites took part joining in activities such as safety bingo, hazard hunts, the creation of a Cause No Harm pledge wall and fire extinguisher training.



Last year we mandated that all Countermeasures & Energetics businesses would need to conduct regular reviews to identify the potential for major process safety events. The reviews are based on a “stress test” that addresses the following questions:

- Have potential major accident hazards been identified?
- Are there effective controls in place to prevent and contain a major event?
- Are these controls being actively monitored?

This year saw the second iteration of that review process, with an increase in the number of hazard scenarios being identified as the rigour of process hazard analysis matured. We are pleased to report that all major accident risks are effectively controlled, with the exception of one involving a storage facility which is the subject of a “stop work order” and has been made safe whilst improvement measures are put in place.

We are continually seeking ways to reduce the risk of any process safety event occurring. As such we conducted a review of asset integrity at all Countermeasures & Energetics businesses during the year using external consultants. The objective of the review was to drive a reduction in the number of process safety events related to equipment failures and improve the reliability of our processes. Based on the Centre for Chemical Process Safety of the American Institute of Chemical Engineers' standards, the assessment covered eight elements of an asset integrity management framework, with a primary focus on maintenance. As a result of the review we have developed an asset integrity strategy for the Group, implemented a Group standard on asset integrity and convened a Chemring team of experts to oversee the Group approach to the management of asset integrity. More specifically we are in the process of identifying and selecting a computerised maintenance management system to ensure that a common system is used across the businesses.

During the year, we also established a process safety sub-committee with the purpose of sharing best practices and advice on the development of new standards and guidance. The committee will provide a continued focus on process safety and the evolution of our approach to reducing process safety risks.

Injury prevention

Injury prevention focuses on the reduction of injuries through the adoption of safety as an inherent part of everything we do. This is enacted through safety leadership, clear expectations, accountability and establishing a safety culture that drives learning and improvement, not blame.

Last year we implemented a corporate reporting system to support our focus on learning from near miss incidents, supported by monthly learning review panels. These have continued throughout the year and have matured in terms of their quality, providing a much greater insight into the measures we can take to prevent injury.

With regards to leadership on safety, this has never more been critical than during the CV-19 pandemic. Business unit leaders conducted virtual all-hands communications and distributed video blogs to reinforce safety as the core priority and the need to adhere to our CV-19 safeguards.

Our focus on injury prevention, in response to CV-19, broadened to place more emphasis on safety measures for people working from home and their emotional wellbeing. Information and guidance on health and wellbeing was continually shared with our colleagues and was supported by frequent contact through remote meetings. In addition the businesses provided guidance and equipment to colleagues to enable them to work safely from home.

HSE risk management

Safe delivery of our business is achieved through the management of risk and is built around understanding our hazards, and establishing clear expectations and consistency. Our HSE Management System Framework Standard puts our HSE policy into practice by setting standards on eight core elements across the Group to drive a robust and common approach to the management of HSE. Each business is audited at least every two years to ensure compliance, with high-priority non-compliances being reported and monitored at Executive Committee level.

During the year assurance visits were conducted with only two high-priority findings identified, which have subsequently been addressed. In addition to our internal assurance process, an external review of safety was conducted to assess our progress since the last external review in 2018. The review concluded that we had achieved strong progress (two years in a year) and observed that a step change had occurred, and that if we maintained focus, we would meet our goal of becoming a “proactive safety” organisation in 2021.

In 2019 we commenced a journey to fundamentally change our safety culture and implemented a targeted HSE strategy. 2020 was focused on embedding those standards and processes, with few new initiatives. This year's performance, despite the challenges of CV-19, has demonstrated that we have continued to build a stronger safety culture.



Our HSE performance

We measure our HSE performance to reflect both occupational safety and process safety.

Occupational safety

Occupational safety is measured through lost time injury ("LTI") rates and total recordable injury frequency ("TRIF") rates based on 200,000 working hours.

In 2020 our LTI rate was 0.24 compared to 0.40 in 2019, reflecting a 40% decrease in lost time injuries. This equates to five injuries compared to eight in 2019.

We are pleased to report that there were no fatalities or life-changing injuries during the year. Our TRIF rate was 0.85. The 2020 TRIF rate matches the 2019 performance of 0.85. None of the injuries represented a serious injury, but reflect an increase in the number of impacts, slips, trips, falls and manual handling injuries. This will be an area of focus in the 2021 HSE plans.

We focus not only on actual injuries but also near miss events. We therefore place an emphasis on near miss reporting as a leading indicator of a maturing safety culture. This year we had 1,417 occupational safety near miss reports, compared to 1,033 in 2019, reflecting an increase in reporting. Of those near miss incidents we had a total of 20 high-potential incidents that focused areas for improvement across the Group.

Process safety

Process safety is measured through both reactive and proactive indicators, namely the number of energetic events that cause harm or injury and process safety near miss events. In 2020 one energetic event causing injury was reported, compared to two in 2019. There were no life-altering injuries as a result of such events. The incident during the year involved the handling of phosphorus during which an operator's gloves caught fire and resulted in burns to the operator.

In addition to our reactive metrics we also measure process safety near miss events, with a total of 903 recorded in 2020 compared to 847 in the previous year.

During 2019 we trialled a new leading indicator for process safety events ("PSE"), which are now categorised as level 1, 2 and 3, with 3 being the event with the most serious potential. We set ourselves a target of 4.6 per 100 production employees, based on the number of upset conditions, energetic events and near miss record in 2019, from which an estimate of future performance was made to which we applied a 10% target reduction for level 2 and 3 process safety events. This year we achieved 1.44 against the target of 4.6 indicating a decrease in the number of PSE events.

HSE strategy forward outlook

In 2019 we set a three-year strategy focused on the control of major accident hazards, injury prevention and HSE risk management. We have now conducted a review of our HSE strategy and, whilst these areas will continue to be areas of focus, the new strategy will broaden to place even greater focus on health and the environment. The new strategy is therefore a natural evolution and reflects the maturity of the business. As such, the next three-year strategy will have at its core:

- asset integrity and process safety – relating to the control of major accident hazards and PSE events;
- occupational health and safety – focusing on injury and illness prevention, including psychological health and wellbeing;
- environment and sustainability – to co-ordinate our work on protecting the environment; and
- security and resilience – to co-ordinate and bring focus to ensure we have secure and resilient business operations, which protect our people and assets.

Our progress against this strategy will be reported in the next annual report and accounts.





Reducing our environmental impact

Our goal of zero harm goes beyond the management of safety. We are committed to environmental sustainability, both globally and in our local communities, and reducing our environmental impact.

Reduction in greenhouse gas emission intensity

11.5%

Introduction

Our environmental performance information is presented in accordance with the Streamlined Energy and Carbon Reporting ("SECR") Guidance (March 2019), as specified under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. Data is presented for our financial year, from 1 November through to 31 October, and includes information on our most significant environmental aspects: energy consumption and associated greenhouse gas ("GHG") emissions; freshwater use; and waste generation. The scope of the reporting includes all continuing global businesses under our operational control and does not include several small leased office spaces used for drop-in needs, where we do not have energy data and they are not in our operational control.

Our GHG emissions calculations are undertaken in accordance with the GHG Protocol Corporate Accounting and Reporting Standard. We are reporting 2019 and 2020 data and include scope 1 GHG emissions, as well as location- and market-based approaches for scope 2 emissions of purchased electricity. Our key scope 1 emissions sources are natural gas and fuel oil used for building and process heating, with small contributions from fuels used in on-site vehicles and refrigerant releases. Primary scope 1 emissions are CO₂, with small contributions from CH₄, N₂ and HFCs.

For the purpose of this report, we are restating our 2019 data, excluding companies no longer under our operational control, to allow 2019 to be used as a baseline for GHG emissions and to compare progress made in 2020. We have reviewed and adjusted, where needed, 2019 figures following our data review. For waste generation, we are using 2020 as a baseline.

Our approach

We are actively seeking ways to reduce our impact on the environment and build resilience to climate change by focusing on energy, waste and water, and understanding the impact of global climate change on our operations. These four focus areas have been identified based on an overall evaluation of environmental impacts and risks, with a focus on impacts that we can influence. These focus areas will be periodically reviewed by our newly established Environmental Committee, consistent with broader sustainability goals and reporting guidelines.

Many of our Chemring businesses have environmental management systems and have undertaken local initiatives and programmes to reduce environmental impacts. This year we have implemented a more centralised, robust approach to drive environmental performance and collect more accurate data.

Our strategy

Our strategy is to reduce our global GHG emissions through improving energy efficiency to reduce consumption and by purchasing electricity from renewable sources. In 2018, Chemring made a conscious decision to purchase its UK electricity using REGO-backed renewable energy contracts. This purchasing covers our UK businesses, namely Chemring Energetics UK, Roke, Chemring Countermeasures UK and our HQ based in Romsey, and reduced our total CO₂e impacts by over 9% as noted in the market-based CO₂e values below.

To improve our energy efficiency, we have made improvements to our operations, including installing new energy-efficient buildings to replace old buildings, upgrading HVAC systems and improving lighting. Improvements in lighting technology provide safety, maintenance and energy savings. Several of our businesses have implemented relamping projects to replace fluorescent lighting with LED lighting. LED lighting provides significant advantages over more traditional fluorescent lighting in terms of reduced energy consumption, less maintenance and provides a safer way to light our operational areas. Fluorescent and HID bulbs need regular replacement and are more costly to operate than LEDs.

In our Chicago operations, 75 460-watt fixtures have been replaced with 232-watt fixtures, giving a total energy saving of 17,100 watts. Similarly, our North Carolina facility has replaced all Hi-Bay lighting with LED lamps providing 30,000 watts of savings. In addition, replacing fluorescent fixtures at that facility with LEDs provided 50,000 watts of savings. Our Scotland facility, one of larger energy users, is performing a similar exercise.

Climate change resilience

We recognise that climate change has the potential to have an impact on our operations, having experienced flooding from a severe weather event at our Tennessee facility in 2018 and wildfires in areas surrounding our Australia operations in 2019. We intend to review the physical and transition risks of global climate change on our operations and supply chain. Mitigation measures taken to date include improving drainage at our Tennessee facility and maintaining lower vegetation heights at the Australian and Norwegian sites.



Energy use and associated GHG emissions for 2020 and 2019

In 2020, we recorded a 14% reduction in energy usage normalised to sales. Our Countermeasure & Energetics businesses in Norway and Scotland are responsible for 37% and 28%, respectively, of the energy usage of the Group. This is followed by our business in Tennessee, which consumed 15% of annual energy consumption. Norway and Scotland have energy reduction plans in place, and the Tennessee business is reviewing energy reduction opportunities. Our UK operations account for 81% of our scope 1 emissions, 24% of our scope 2 emissions and 39% of our energy use.

In terms of GHG emissions, in 2020 we observed an 6% increase in scope 1 and 2 emissions from 21,142 tCO₂e in 2019 to 22,480 tCO₂e in 2020 using location-based emission factors. When normalised for gross revenues, this reflects a decrease of 11.5%, from 63.1 to 55.8.

	2020 ³			2019 ⁴		
	UK	USA, Norway, Australia	Group total	UK	USA, Norway, Australia	Group total
Scope 1 emissions – continuing operations						
<i>Combustion of fuel in any premises, machinery or equipment operated, owned or controlled by the Group</i>						
CO₂e (tonnes)						
Gas	5,587	443	6,030	5,272	554	5,826
Heating oil	1,704	89	1,793	1,362	90	1,452
Liquid petroleum gas	38	192	230	40	138	178
<i>Fuels consumed by Group-owned and leased vehicles, excluding business travel and employee commuting</i>						
CO₂e (tonnes)						
Diesel	103	184	287	124	208	332
Petroleum	—	211	211	—	217	217
<i>The operation or control of any manufacturing process by the Group</i>						
CO₂e (tonnes)						
On-site waste incineration	1	4	5	1	3	4
Refrigerants discharged ⁽²⁾	88	649	737	—	—	—
Total scope 1 emissions CO₂e (tonnes)	7,521	1,772	9,293	6,799	1,210	8,009
Scope 2 emissions – continuing operations						
Total emissions CO₂e (tonnes)						
Electricity – location-based ⁽¹⁾	3,145	10,042	13,187	3,116	10,017	13,133
Electricity – market-based	—	11,082	11,082	—	10,878	10,878
Total scope 1 and 2 Emissions – continuing operations⁽¹⁾						
Location based CO ₂ e (tonnes)	10,666	11,814	22,480	9,915	11,227	21,142
Market based CO ₂ e (tonnes)	7,521	12,854	20,375	6,799	12,088	18,887
Total energy consumption (Mwh)	51,022	78,591	129,613	46,851	79,069	125,920

- Notes:**
- Our 2019 annual report noted total scope 1 and 2 GHG emissions of 28,591 tonnes of CO₂ equivalents. Following a re-evaluation of energy use data and calculations, and with the removal of discontinued operations to allow 2019 to be used as a baseline, the new 2019 total is 21,142 CO₂e tonnes.
 - Impacts from the release of refrigerants are included in the 2020 scope 1 data (representing 8% of the scope 1 total) however, this information was not available and thus not included in restated 2019 figures.
 - Our 2020 and restated 2019 data does not include environmental impacts associated with Chemring Ordnance, Chemring Energetic Devices Torrance and Santa Clarita, and Chemring Defence UK, which were sold or closed during the reporting period.
 - As part of our data validation, several discrepancies were noted in last year's report; these have been addressed in the table above. The previous 2019 values overstated the CO₂e emissions by 6.7%.

	2020	2019
Total scope 1 and scope 2 emissions CO ₂ e (tonnes) – continuing operations and location-based	22,480	21,142
Group revenue (£m) continuing operations	402.5	335.2
Total CO₂e (tonnes) per £m of revenue	55.8	63.1



Water consumption

In 2020 we used a total of 1,265,812 metres³ of freshwater, similar in magnitude to our 2019 use. This includes both purchased and extracted groundwater, which was not included in past reports.

	2020 ³			2019 ³		
	UK	USA, Norway, Australia	Group total	UK	USA, Norway, Australia	Group total
Freshwater (metres³)						
Freshwater use	578,989	686,823	1,265,812	578,008	699,929	1,277,937

Our Australian facility continues to collect and use rainwater that falls on the site for facility needs. A core activity as we move forward will be to develop a sustainable water policy and seek further water conservation opportunities across all our areas of operation.

Waste generation

In 2020 our total hazardous and non-hazardous waste was 402 and 1,588 tonnes respectively. Of this, 22% of hazardous and 50% of non-hazardous waste was recycled. We will use 2020 data as a baseline for future waste reporting.

	2020 ³		
	UK	USA, Norway, Australia	Group total
Waste (tonnes)			
Recycled, non-hazardous	191	601	792
Recycled, hazardous	88	1	89
Not recycled, non-hazardous	143	625	768
Not recycled, hazardous	51	262	313
Total waste (tonnes)	473	1,489	1,962

At our Countermeasures & Energetics businesses we generate unique waste which is often best managed by destroying it at on-site treatment facilities. In 2020, we made a significant investment in upgrading the treatment facility at our Tennessee operation, improving site grading and building new treatment units. Upgrades were also made at our Salisbury facility.

With respect to waste management there are two priority areas: the reduction of waste generation and the reduction of waste sent to landfill. To help track progress in these areas we have begun recording the amount of waste sent to landfill, and are evaluating and updating our waste reduction plans at our largest waste-generating businesses.

At our business in Tennessee, our employee "Green Team" is driving a programme towards zero waste to landfill. One milestone achieved in 2020 was a 70% reduction in non-hazardous waste sent to landfills. Non-hazardous waste is routinely generated at the plant, including scrap wood, plastic, cardboard and metal. Another milestone achieved in 2020 was the reduction in the number of waste dumpsters on site. The facility has a dedicated area for recycling that is also used to support a local elementary school's recycling programme.





Land quality

Our facility in Chicago, US is located on a site which has “superfund” status under the US contaminated land regime. The business continues to work with consultants and the regulatory authorities to ensure that its legal obligations in relation to this matter are fully satisfied. The Group carries a £3.2m (2019: £3.2m) provision in respect of environmental liabilities, which the Board considers to be adequate (see note 23).

Environmental incidents

There were no significant environmental incidents in the year.

Environmental fines or penalties

The Group had no fines or penalties in the last three years.

Our values in action



Australia – water tanks

Chemring Australia is based in Lara, Victoria. Due to its rural location, the facility is not connected to mains water. To reduce its environmental impact, the team collects and utilises rainwater on-site in preference to trucking water onto the site. Greg Kilpatrick, HSE Manager Chemring Australia, shares more about the scheme and its environmental and safety benefits:

“Rainwater that lands on our buildings flows to collection tanks. The overflow from these tanks is pumped to our fire services building, where it is treated (filtered and UV stabilised), then redirected back to our site buildings. There, it is used for our manufacturing processes, cleaning, sewage treatment, emergency showers/eyewash stations, and our HVAC humidifiers.”





Our people

Investing in our people

Chemring people are at the heart of our business. It is through our people that we will progress our strategy and ensure that we realise the potential for growth within each sector. Developing a high performing and inclusive culture is a key enabler in our ability to deliver this strategic growth.

Engaged, motivated, empowered and appropriately skilled employees are integral to our success. We support all our people through creating a safe, inclusive environment, where every individual is able to work well and contribute to the development of the business.

The CV-19 crisis has meant that it has been more important than ever to keep our people, their families and the wider community safe and the business running in support of our customers and other external stakeholders.

Our approach to developing a high performing and inclusive culture is focused on five key areas:

Understanding our population

Our Chemring business is highly diverse. Our colleagues work in diverse environments across the globe, with skill sets ranging from skilled scientists, engineers, technicians and operators to deep functional experts in areas such as health and safety, people and technology. Our success depends on our people and understanding our global population is core to that.

Making sure that we have an appropriately diverse pool of talent within the organisation is a fundamental metric. Ensuring that our employee gender diversity is reflected in our Board make up has been a key focus over the past two years and we are delighted that this has now been achieved.

Investment in systems to continue our understanding of our employee population is part of the approach for 2021.

Understanding our population

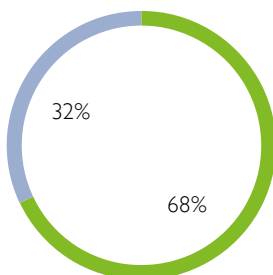
Engaging with our people

Developing at Chemring

Diversity and inclusion at Chemring

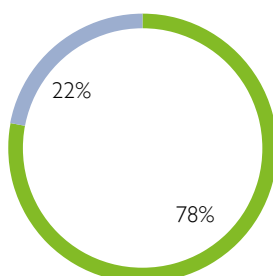
Chemring in the community

All employees gender split



■ Male
■ Female

Women in management roles



■ Male
■ Female





Engaging with our people

Communication both within and across the Group is key to engagement. Each business unit uses a range of formal and informal channels including all-hands meetings, smaller team briefings, employee forums, direct email addresses and the CEO's vlog, with an active Q&A encouraging anyone from across the business to ask a question, and through the Chemring magazine, Chemring-i.

During the year, Laurie Bowen, as Chairman of the Remuneration Committee and non-executive director designated by the Board, met with groups of colleagues from different business areas and at different levels in the organisation to hear direct from them their views on working at Chemring as well as sharing the work of the Board. These groups included previous participants in the Emerging Leaders Programme, line managers and supervisors and a business unit leadership team. These groups were chosen to complement the work done previously by non-executive director Andrew Davies in 2019 when he met with groups of operators from around the US businesses.

Development and creating networks are key themes at all levels in the organisation.

The Early Careers network continues to develop with an event in November 2019 bringing together all UK and Norwegian graduate and apprentice colleagues who were in the first two years of their employment. The conference provided the opportunity for face-to-face connections, interaction with senior leaders and development workshops. The corresponding US event did not proceed due to the CV-19 outbreak. Consideration is now being given to options to enhance networking amongst this key group virtually.

The Annual Leadership Forum due to be hosted in the UK in June this year was also cancelled due to the global pandemic. Constant, regular updates and virtual meetings of the global leadership teams have ensured that this key group remains well connected and up to date on the challenges around the business and have provided the opportunity for discussion and debate. The forum is planned to resume in 2021.

Towards the end of 2019, and in response to feedback from the culture review, we launched a real-time engagement tool which provides dashboard information on employee sentiment across the Group on a continuous basis, and enables employees to provide immediate feedback to changes. This is now live in every part of the business with colleagues being asked questions weekly through the online portal to help gauge sentiment in the business in real time.

CV-19 put extraordinary pressure on a wide group of colleagues and ensuring we were able to monitor how they were coping and provide support as it was required was very important. This tool has been invaluable as we have navigated through this crisis. In particular for those colleagues who were required to work remotely for a period of time, it provided a key insight into how they were feeling and gave immediate insights into areas where the business needed to make change or create additional focus, to support productivity and wellbeing.

Throughout 2020 we recorded an average response rate of close to 50% with a target to move this to closer to 70% in 2021. The average positivity score was over 70% across all areas. Business units review their own population data at least once a week as well as reviewing verbatim comments.

Development at Chemring

Development is the cornerstone of the drive to continuously improve the quality of our business. Our colleagues are involved in performing a huge number of often complex processes and procedures and work continues to ensure high levels of operator competence throughout the organisation. Individuals across the organisation are encouraged to undertake continuing professional development as required to ensure that expertise and knowledge remains up to date. Additionally through different routes, further technical development, including workplace PhD programmes and MBA study, are actively undertaken by a number of colleagues. Additional focus will be placed on these areas in 2021.

Outside of technical competence, the Development Framework created in 2019 focuses on the development of management and leadership skills.

Development Framework

	Leadership	Accelerate Talent	Early Careers
Senior Level Leader	Leading Our Organisation		
Mid Level Leader	Leading Our Leaders	Emerging Leaders Programme	Early Careers Participants / Network
First Level Leader	Leading Our People		
Managing Yourself	Leading Ourselves	Future Leaders Programme	Early Careers Programme



During 2020 all colleagues whose role includes being a first line manager or supervisor have commenced participation in the development programme as part of the Development Framework. There are over 340 participants who between them directly manage around 85% of the total population of the organisation. This programme is based around a global approach to ensuring all line managers understand the people policies and processes affecting their teams locally and are trained in their responsibility for these. Additionally they receive training in six core topics to support their development as effective managers and leaders. These topics are supported globally, and tailored and deployed locally: Global Voice, Local Accent.

Looking forward to 2021, work has been ongoing in 2020 in preparation for the launch of the second cohort of participants in the Emerging Leaders Programme. This programme, run every second year, brings together high-potential future leaders from around the Group onto a multi-faceted nine-month programme to support their development as leaders of the future. The programme includes learning modules, one-to-one coaching, live business projects run by senior level sponsors and group work on specific work challenges.

This year Chemring welcomed a record number of graduates and apprentices to the UK businesses. Alongside this our commitment to sponsoring bursaries for undergraduates through the Institute of Engineering and Technology underlines our commitment to supporting future generations of scientists and engineers.

Wellbeing continues to be a key theme in 2020. As part of line manager development and through the Early Careers network events, areas such as maintaining mental health have been addressed as well as helping individuals to develop healthy habits. Mental health first aid training has continued at Roke and will be extended to additional business units in 2021.

Diversity and inclusion at Chemring

We are committed to ensuring that we have an inclusive and diverse culture across the Group which reflects the communities we operate in, as well as providing an environment where all our people are able to be their best at work. Different expertise and experience contribute positively to Chemring's development and contributes to a broader and better basis for decision making.

Chemring strives for diversity on a broad basis including gender, age, background, education, disability and nationality (within the constraints of our regulatory requirements). As a business, we are committed to meeting, at a minimum, the labour rights and legislation requirements in each country in which we operate. In practice, we often exceed these requirements.

We have a number of formal and informal groups around the business which support and connect people with shared characteristics or interests. These include Women in Engineering groups, Women and Gender Diversity groups, LGBT+ groups and faith-based groups.

The Group makes no distinction between disabled and able-bodied persons in recruitment, employment and training, career development and promotion, provided that any disability does not make the particular employment impractical or impossible under the stringent regulatory requirements under which Chemring operates.

Future focus is on ensuring all our recruitment procedures incorporate our commitment to diversity. We ensure that any external bodies we work with for the provision of support have diverse candidate pools and attraction approaches that are open to all suitably qualified individuals.

Our values in action



Apprenticeships

Across our businesses, we look to support young people and those at the start of their careers through the next stages of their development.

Esme King, who is based at our UK countermeasures facility, completed her advance apprenticeship and is now in her first year as a shift maintenance engineer.

"After spending three and a half years as an apprentice on site, I am now a shift maintenance engineer. Doing my apprenticeship and learning on the job has given me invaluable skills and competence. It really is the best way to get the qualifications, skills, and experience you need to succeed in engineering."





Our people continued

Chemring in the community

We recognise that each of the Group's businesses has an important role to play in its local community. We have a recognised community investment policy, which confirms our commitment to support selected charitable causes with a focus on the military and armed services, and those linked to the local communities in which the Group's businesses operate. Each business has its own locally held charity budget, and at a Group level, charitable donations are considered by the Executive Committee.

In addition to making cash donations, the Group also encourages and supports employees who undertake voluntary work in the local community, where appropriate. During the year, employees donated their time and services on a wide range of projects, several of which had an educational bias. In particular throughout the CV-19 crisis our colleagues and businesses have provided significant support with the production of PPE including Perspex face shields for use in healthcare settings, and the making of face coverings on site for use by colleagues at no cost.

Across the business, our people are involved with a number of educational initiatives and as a business we have relationships with several universities, whereby funding is provided for students' research activities.

We are aware that on occasion our manufacturing activities can impact on the local community. This impact may be due to product proofing or testing, for example. In these instances, the businesses seek to actively liaise with local residents and community groups to minimise any impact. The Group is also cognisant of the potential impact of its operations on the local environment, and is addressing this through its environmental strategy.



Our values in action



Supporting the armed forces community

Demonstrating our support for the armed forces community, Chemring has pledged itself to the Armed Forces Covenant, ensuring that those who serve or who have served in the armed forces, and their families, are treated fairly. We are proud to support the armed forces, our employees who serve as members of the reserve forces and those who work with the cadet forces.

Our Chemring Countermeasures UK business in Salisbury received the silver award from the Defence Employer Recognition Scheme.





Ethics and business conduct

Conducting business in a responsible manner

Chemring is committed to conducting its business in an ethical and responsible manner at all times, and in full compliance with all applicable laws and regulations.

Our approach

We are committed to promoting a culture within Chemring where everyone does the right thing and takes personal responsibility for their actions. Our Operational Framework and Code of Conduct set out the standards of business conduct and behaviours we expect of all of our businesses, our employees and all third parties who act on our behalf. We require all employees and third parties who act on our behalf to conduct business honestly and with integrity, and to take personal responsibility for ensuring that our commitment to sound and ethical business conduct is delivered.

Operational Framework

Our Operational Framework, which was implemented on 1 January 2019, incorporates a broad range of more than 35 policies and procedures which have been adopted by all of our businesses. The Operational Framework implements a robust governance and compliance framework to enable us to operate in a safe, consistent and accountable way.

The leaders of each of our businesses are required to ensure that:

- every employee, at every level of the organisation, has access to and understands the requirements of the Operational Framework;
- appropriate training and monitoring processes are in place to ensure proper implementation of the Operational Framework; and
- local procedures and processes are adopted to implement the requirements of the Operational Framework.

During the year we introduced an online compliance system, through which all of our Operational Framework policies, procedures and associated training will be disseminated to employees across the Group in future.

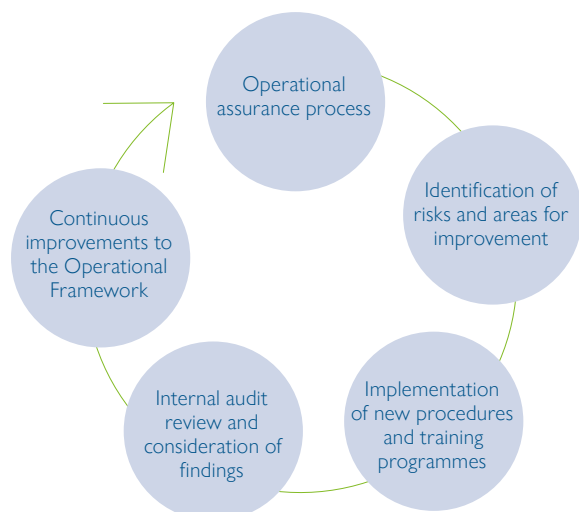
Our governance framework also requires all businesses to complete an Operational Assurance Statement on a half-yearly basis, providing a detailed assessment of their compliance with the Operational Framework. Our businesses have now produced three Operational Assurance Statements and the output from the process is enabling us to drive continuous improvement in our governance and compliance framework, including the identification of additional training requirements for our employees. It also allows us to monitor and address the evolution of a number of the key risks we face. During 2021, we intend to refresh the current process to enable the output to be more effectively used in our future internal audit activities.

Ethics & Compliance Committee

During the year, the Board established an Ethics & Compliance Committee, chaired by Carl-Peter Forster, with the other members being the Group Chief Executive, the President of our US operations and the Group Legal Director & Company Secretary. The Committee now has oversight of the Group's ethical business conduct and compliance framework, including our anti-bribery processes. It will monitor the implementation of the framework across the Group and recommend areas for improvement in the future.

At its first two meetings, the Committee undertook a review of:

- the Group's key compliance policies and associated training material;
- the effectiveness of arrangements for dissemination of our Code of Conduct and training;
- the adequacy of our whistleblowing arrangements; and
- the compliance certificates submitted by our businesses in respect of their compliance with our anti-bribery processes (further details below).



A statement of the Group's compliance with the Modern Slavery Act 2015 can be found on the Group's website at www.chemring.co.uk





Ethics and business conduct continued

Code of Conduct

Our Code of Conduct, which sits alongside our Operational Framework, embraces our fundamental values of Safety, Excellence and Innovation. It provides direction to all employees on legal, ethical and risk issues that they may encounter in their day-to-day activities.

All employees and all third parties who act on the Group's behalf are required to comply with our standards of behaviour and business conduct, as set out within the Code, and applicable laws and regulations in all of the countries in which we operate. All employees, current and new, are provided with a copy of the Code of Conduct, and asked to confirm that they will adhere to its standards. During the year we issued a training video on the Code, which has been made available to all employees and can be used during the induction process for new employees. Our aim is to ensure that all employees complete mandatory training on the Code of Conduct on an annual basis in future.

Whistleblowing

Our Chemring culture embraces transparency and openness, and we encourage all employees to speak up if they have any concerns. We have a whistleblowing policy and associated procedures in place which enable all employees to raise concerns, in confidence, about possible improprieties or wrongdoing within the business, without fear of reprisal or retaliation. Employees are able to raise issues by contacting our 24-hour ethics reporting service by phone, email or an external website. All issues reported by employees are taken seriously and investigated appropriately in a confidential manner.

During the year we updated our internal procedures for the handling of whistleblowing reports to ensure that all reports made, whether through the external service or through other internal channels, are dealt with in a proper and consistent manner.

In 2021, we intend to run a campaign to further increase awareness of our whistleblowing arrangements amongst employees.



Anti-bribery and corruption

The Group has well-established anti-corruption policies, which are included within our Operational Framework. Specifically, these cover bribery and corruption, conflicts of interest, gifts and hospitality, and facilitation payments. A number of other policies within the Operational Framework also address bribery and corruption risks in areas such as finance, political donations and lobbying, charitable donations and offset.

Our detailed anti-corruption procedures are incorporated within our Bribery Act Compliance Manual ("BACM"), which is updated on a regular basis, and includes requirements for:

- each business to routinely conduct informed bribery risk assessments as part of normal operating procedures, to determine the nature and extent of the Group's exposure to potential internal and external risks of bribery and corruption on its behalf by persons associated with it;
- approval of the appointment of all sales partners and other third party advisers, which in all circumstances requires the completion of risk-based due diligence, appropriate management approvals, use of standard form contracts, and ongoing monitoring and review;
- risk-based anti-corruption processes for the engagement of service providers and suppliers;
- regular mandatory training on BACM and its application to their respective roles for management, supervisors and all employees working within commercial, sales and marketing, finance and human resource functions;
- approval of the giving and receiving of reasonable, proportionate and appropriate gifts and hospitality in the normal course of business; and
- proper identification, disclosure and management of potential or actual conflicts of interest.

During the year we issued a BACM "Pocket Guide" to all employees across the Group, providing an overview of our anti-corruption policies and the requirements of the detailed manual.

All businesses are required to complete a BACM Compliance Certificate on a biannual basis, confirming that all policies and procedures within BACM have been complied with and providing supporting information to demonstrate compliance.

We recognise that the appointment of third party sales partners in our routes to market can present particular bribery and corruption risks, and we therefore implement enhanced anti-corruption procedures for the engagement of sales partners where it is necessary to use them by mandating:

- restrictions on the number of sales partners to be engaged in each territory;
- the preparation of a full business case to justify the appointment of all new third party sales partners, including a two-stage bribery risk assessment incorporating the requisite level of risk-based due diligence, which must be approved by the Group Chief Executive before the sales partner is appointed;
- a full annual reappointment process for all retained sales partners, including recommissioning of the appropriate risk-based due diligence and resubmission of a full business case for approval by the Group Chief Executive; and
- increased reporting requirements for all payments made to third party sales partners and higher risk service providers.



Our new online compliance system introduced during the year has allowed us to automate our anti-corruption processes, which were previously paper based, and will provide greater consistency in the application of the processes across the Group. The system will enable us to disseminate mandatory anti-corruption training to potential sales partners and will allow us to monitor third parties on a continuous basis. It also incorporates a module for employees to seek online approval for gifts and hospitality, and provides monitoring and reporting functions which will increase visibility on compliance for our businesses and our legal departments in the UK and the US. We have transitioned all third party sales partners to the new system and will be transitioning higher-risk service providers and suppliers during 2021.

Relevant employees completed updated online training on BACM during the year and a review of our BACM procedures was completed by PwC as part of our internal audit programme.

Human rights

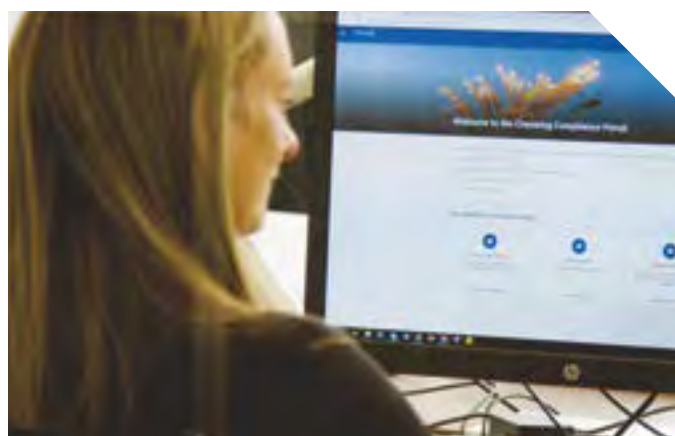
The Group is committed to respecting human rights in the countries in which we do business. Our Code of Conduct and other applicable policies under the Operational Framework support our commitment to ensuring, as far as we are able, that there is no slavery or human trafficking in any part of our business or in our supply chain. All suppliers are provided with a copy of our Supplier Code of Conduct, which requires them to adhere to our ethical standards and expectations, including in relation to human rights. We do not knowingly support or do business with any suppliers who are involved in slavery.

A statement of the Group's compliance with the Modern Slavery Act 2015 can be found on the Group's website at www.chemring.co.uk.

We fully adhere to all relevant government guidelines designed to ensure that our products are not knowingly incorporated into weapons, or other equipment, used for the purposes of terrorism, international repression or the abuse of human rights.

“Our new online compliance system introduced during the year has allowed us to automate our anti-corruption processes, which were previously paper based, and will provide greater consistency in the application of the processes across the Group.”

Sarah Ellard,
Group Legal Director





Companies Act 2006 requirements

This section of the strategic report constitutes the Group's non-financial information statement and addresses the requirements of sections 414CA and 414CB of the Companies Act 2006. The non-financial information is included within the various other sections of the strategic report and is cross-referenced below.

Our Code of Conduct provides direction to our employees on the standards of behaviour and business conduct which we expect from them. It sits alongside our Operational Framework, which incorporates a wide range of policies and procedures to enable our businesses to comply with their legal obligations and to operate in a safe, consistent and accountable way.

Our Code of Conduct and our key public policies are available at www.chemring.co.uk.

Reporting requirement	Relevant policies which govern our approach	Where to read more	Page
Environmental matters	• Group health, safety and environmental policy	• Environment	51
Employees	• People policy	• Stakeholder engagement	17
	• Group health, safety and environmental policy	• Our people	55
	• Remuneration policy	• Health and safety	48
	• Whistleblowing policy	• Ethics and business conduct	59
	• Code of Conduct	• Directors' remuneration report	82
Social and community matters	• Community investment policy	• Our people	55
	• Code of Conduct	• Ethics and business conduct	59
Respect for human rights	• Modern Slavery Act Statement	• Our people	55
	• Supply chain policy	• Ethics and business conduct	59
	• Supplier Code of Conduct		
	• Code of Conduct		
Anti-bribery and corruption	• Anti-corruption policy	• Ethics and business conduct	59
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Board of directors

Experienced leadership

Chairman



Carl-Peter Forster 
Non-Executive Chairman

Board length of service

(as at 15 December 2020):
4 years, 7 months

Experience:

- Board experience at Chairman and Chief Executive level
- Extensive international experience within the industrial goods and engineering sectors
- Expertise in operational excellence and lean manufacturing

Executive directors



Michael Ord
Group Chief Executive

Board length of service

(as at 15 December 2020):
2 years, 6 months

Experience:

- Extensive senior management experience in the defence sector
- International experience in both service and manufacturing industries



Andrew Lewis
Group Finance Director

Board length of service

(as at 15 December 2020):
3 years, 11 months

Experience:

- Extensive international experience in the defence sector
- Board experience at Finance Director level
- Chartered Accountant



Sarah Ellard
Group Legal Director
& Company Secretary

Board length of service

(as at 15 December 2020):
9 years, 3 months

Experience:

- Legal, compliance and governance expertise
- Chartered Secretary

Carl-Peter Forster joined the Group as an independent non-executive director and Chairman-designate on 1 May 2016, and was appointed Chairman of the Board on 1 July 2016.

Carl-Peter formerly held senior leadership positions in some of the world's largest automotive manufacturers, including BMW, General Motors and Tata Motors (including Jaguar Land Rover).

Carl-Peter is currently the Senior Independent Director at both IMI plc and Babcock International Group PLC, and was previously a non-executive director of Rexam PLC, Rolls-Royce plc and Cosworth Ltd. He is also Chairman of the Hella KGaA Shareholder Committee and the Kinexon GmbH Advisory Board, a member of the Boards of The Mobility House AG and Leddar Tech Inc. and holds advisory roles with Geely Group, Rock Tech Lithium, Inc. and PwC. He previously served as Chairman of The London Electric Vehicle Company Ltd and Friedola Tech GmbH, and as a member of the Boards of Volvo Cars Corporation and Geely Automobile Holdings.

Michael Ord was appointed to the Board on 1 June 2018 and appointed as Group Chief Executive on 1 July 2018.

Michael formerly held a number of senior management roles with BAE Systems including Managing Director of their Naval Ships and F-35 Joint Strike Fighter businesses. Prior to his 1996 move to industry, Michael had a successful career in the Royal Navy serving for twelve years in a number of engineering management roles.

An Aeronautical Systems Engineering graduate and a Chartered Engineer, Michael has also completed post-graduate management studies at Manchester Business School and is a graduate of Harvard Business School's Advanced Management Programme. He is a trustee of The Education & Training Foundation, and a member of the Royal Aeronautical Society.

Andrew Lewis joined the Group on 9 January 2017 and was appointed to the Board as Group Finance Director on 19 January 2017.

Andrew spent eight years as Group Finance Director of Avon Rubber p.l.c., where he also performed the Interim CEO role during 2015, following the retirement of the previous CEO.

Prior to joining Avon, Andrew was Group Financial Controller of Rotork plc and before that he was a Director at PricewaterhouseCoopers in Bristol and New Zealand.

Sarah Ellard was appointed as Group Legal Director on 7 October 2011, having been Group Company Secretary since 1998.

Prior to joining the Group, Sarah trained and worked at Ernst & Young LLP. She is a Fellow of The Chartered Governance Institute.



Committee membership

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- Denotes Chairman

Non-executive directors



Laurie Bowen A N R
Non-Executive Director

Board length of service
(as at 15 December 2020):
1 year, 5 months

Experience:

- Board experience at Chief Executive level
- International experience in the technology sector

Laurie Bowen was appointed as an independent non-executive director on 1 August 2019 and was appointed as Chairman of the Remuneration Committee on 4 March 2020. She is also a non-executive director and Chairman of the Nomination Committee at Ricardo plc.

Laurie has over thirty years of leadership experience at large multinational telecommunications and technology companies including Cable & Wireless Communications plc, Tata Communications, BT Group plc and IBM. Most recently she was Chief Executive of Telecom Italia Sparkle in the Americas, a subsidiary of the international wholesale arm of Telecom Italia.

Laurie was previously a non-executive director at customer experience technology provider, Transcom Worldwide AB.



Andrew Davies A N R
Senior Independent
Non-Executive Director

Board length of service
(as at 15 December 2020):
4 years, 7 months

Experience:

- Board experience at Chief Executive level
- Extensive knowledge of the international defence industry

Andrew Davies was appointed as an independent non-executive director on 17 May 2016 and was appointed as Senior Independent Director on 1 May 2020. He also served as Chairman of the Remuneration Committee until 4 March 2020.

Andrew is currently Chief Executive of Kier Group PLC. He has a wealth of relevant sector experience, having served in senior operational and strategic roles at executive committee level at BAE Systems plc for more than fourteen years. He was formerly Chief Executive of Wates Group Ltd.



Stephen King A N R
Non-Executive Director

Board length of service
(as at 15 December 2020):
2 years, 1 month

Experience:

- Executive and non-executive board experience in public and private companies
- Chartered Accountant

Stephen King was appointed as an independent non-executive director on 1 December 2018 and as Chairman of the Audit Committee on 1 August 2019. He is a non-executive director and Chairman of the Audit Committee and Risk Committee at Signature Aviation plc.

Stephen has a wealth of senior level experience within the industrial, engineering and manufacturing sectors, including a number of executive and non-executive roles. Stephen retired as Group Finance Director of Caledonia Investments plc in 2018. He was previously a non-executive director and Chairman of the Audit Committee at The Weir Group plc and a non-executive director and Senior Independent Director at TT Electronics plc.

Stephen was Finance Director at De La Rue plc from 2003 to 2009, and prior to that at Midlands Electricity plc. A Chartered Accountant, Stephen has also held senior financial positions at Lucas Industries plc and Seaboard plc, and was a non-executive director of Camelot plc.



Fiona MacAulay A N R
Non-Executive Director

Board length of service
(as at 15 December 2020):
0 years, 6 months

Experience:

- Board experience at Chief Executive level and in non executive positions
- International and operational experience in high-hazard industries

Fiona MacAulay was appointed as a non-executive director on 3 June 2020. She is also Chair of Independent Gas plc and a non-executive director of Ferrexpo plc, Coro Energy plc and EPI Group Ltd.

Fiona previously held a number of senior operational roles within the oil and gas sector, including a two-year appointment as Chief Executive of Echo Energy plc in 2017.



Chairman's introduction to governance

Embedding a robust governance framework

The Board is committed to upholding high standards of corporate governance, protecting and growing shareholder value, and engaging in a fair and transparent manner with all of the Group's stakeholders.



Carl-Peter Forster
Chairman

“The Group acknowledges its responsibilities to contribute to a sustainable future.”

On behalf of the Board, I am pleased to present the corporate governance report for the year ended 31 October 2020. The report explains how the Board operates and how corporate governance is addressed in Chemring.

UK Corporate Governance Code

In the year under review, Chemring was subject to the UK Corporate Governance Code published in July 2018 by the Financial Reporting Council (the “Code”) and this report sets out how we have complied with the Code.

Further details on the Remuneration Committee's approach to the Code are set out on pages 82 to 100.

Response to CV-19

The CV-19 pandemic and the Group's response was obviously a key area of focus for the Board during the year. The Board convened on a number of occasions during the early weeks of the pandemic to review the actions taken by management to protect and safeguard our people, and ensure continuity of operations for our customers and other stakeholders. The Board continues to receive regular updates from management and the Group's Crisis Management Team on ongoing developments with regards to the pandemic and potential impacts on the business. Further details of the Group's response are set out on pages 6 and 7.

Culture and values

The Board recognises its role in establishing the purpose and values of the Group, and embedding these throughout the business. Our core values of Safety, Excellence and Innovation form the foundation for our organisation and our strategy, and are reflected in our Code of Conduct.

Our Code of Conduct sets out the standards of behaviour and business conduct we expect of all Chemring employees and all third parties acting on our behalf. It also reinforces the culture the Board embraces within Chemring of always doing the right thing and taking personal responsibility for our actions. We firmly believe that promoting a Chemring culture which embraces responsible behaviour will contribute to the long-term success of the business and all of our stakeholders.

Governance and Operational Framework

During the year, we established an Ethics & Compliance Committee, which I now chair, with the other members being the Group Chief Executive, the President of our US operations and the Group Legal Director & Company Secretary. The Committee has oversight of our ethical business conduct and compliance arrangements across the Group, and its establishment reinforces the importance of responsible behaviour at all levels of the organisation. Further details of the Committee's activities during the year can be found on page 59.



Our Operational Framework, which was implemented on 1 January 2019, provides an enhanced governance framework to enable us to operate in a safe, consistent and accountable way. Together with our Code of Conduct, the Operational Framework promotes a set of policies, practices and behaviours which are fully aligned with Chemring's purpose, values, vision and strategy.

Stakeholder engagement

In recognition of the requirement under the Code for the Board to establish a mechanism for engaging directly with our employees, Andrew Davies was designated as the non-executive director who would engage on behalf of the Board up until March 2020, when the role was assumed by Laurie Bowen. Laurie held a number of remote meetings with employees at all levels of the organisation in the UK and in the US during the year, at which she shared with employees a perspective on the Board's priorities and provided an opportunity for them to ask questions of her. Further details are provided later in the report. Feedback from the meetings has been very positive, with employees welcoming the opportunity to meet with a non-executive member of the Board, and the insights from these interactions continue to provide valuable input to the Board's deliberations.

We fully recognise our obligation to engage with and consider the impact of the Board's decisions on all of our stakeholders. Further details on our approach can be found on pages 16 to 19 and later in this report.

Board changes

Nigel Young retired as a non-executive director on 30 April 2020. Nigel served on the Board for nearly seven years and was formerly the Chairman of the Audit Committee and the Senior Independent Director. We thank him for his significant contribution to the Board during his seven-year tenure. Andrew Davies was appointed as the Senior Independent Director on 1 May 2020.

We welcomed Fiona MacAulay to the Board as a new non-executive director on 3 June 2020. Fiona has significant industrial experience and a deep understanding of operational excellence, technical engineering and safety-critical environments. Her contribution to the Board is already proving very valuable.

Details of the process followed for Fiona's appointment are set out in the Nomination Committee report on pages 80 and 81.

Board effectiveness

The requirement for remote working during the early stages of the pandemic meant that a number of Board meetings during the year were required to be held virtually. I believe that the Board has adapted well to a new way of working and whilst meeting in-person will always be our preference, virtual meetings will provide an opportunity for additional interaction between Board members going forward.

CV-19 related travel restrictions and lockdown arrangements from March onwards also meant that the Board as a collective was unable to visit as many sites as planned at the beginning of the year and we hope to resume this activity during 2021. However, we continued to interact with the management of the businesses and other employees remotely, as these engagement activities are very beneficial to aiding the Board's understanding of both the challenges and opportunities within our businesses.

We continue to build on the strong relationship established with our US Board in recent years, and whilst we were unable to meet collectively in-person with the US Board as scheduled during the year, the President and Chairman of the US Board attended several of our Board meetings by video-conference. Given the importance of our US businesses, it is vital that we maintain positive interactions with the US Board and we will build further on this engagement in the year ahead.

Board evaluation

In progressing the appointment of a new non-executive director during the year, we reflected on how we could improve our effectiveness by complementing and strengthening the existing range of skills and experience on the Board. We supplemented this with a more formal, externally-facilitated performance evaluation in the latter part of the year, which is described on page 75. The suggestions made during the evaluation process will be taken into consideration as we continue to improve the effectiveness of the Board in the coming year.

Carl-Peter Forster

Chairman

15 December 2020

Compliance with the UK Corporate Governance Code

In the year under review, the Company was required to apply the main and supporting principles of good governance set out in the UK Corporate Governance Code issued in 2018 by the Financial Reporting Council (the "Code"). The Company was in compliance with the provisions of the Code throughout the year ended 31 October 2020.

Further details on how the Company applied the principles of the Code during the year can be found as follows:

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Corporate governance report

Board leadership and company purpose

Governance framework

The Board is responsible for ensuring leadership of the Group through effective oversight and review, and aims to deliver the long-term sustainable success of the business. The Board discharges some of its responsibilities directly in accordance with the formal schedule of matters reserved to it for approval, and discharges others through Board committees and the executive management.

The key responsibilities of the Board, its committees and the executive management are set out below.

The schedule of matters reserved to the Board and the terms of reference of the Board committees are published on the Company's website (www.chemring.co.uk/investors/corporate-governance).

The Board

Responsible for promoting the long-term sustainable success of the Group; directing its purpose, values and strategy; oversight of financial and organisational control; ensuring that the Group's businesses have appropriate and effective internal control and risk management systems; and ensuring effective engagement with stakeholders.

Audit Committee

Monitors the integrity of the financial statements, and the effectiveness of the external and internal audit processes.

See page 76

(Audit Committee report)

Nomination Committee

Evaluates the size, structure and composition of the Board, and oversees Board appointments.

See page 80

(Nomination Committee report)

Remuneration Committee

Sets and reviews the directors' remuneration policy, and oversees remuneration arrangements for the senior leadership.

See page 82

(Directors' remuneration report)

The Chief Executive

Responsible for the leadership and day-to-day management of the business, and development and implementation of the Group's strategy.

Executive Committee

Oversees the delivery of the Group's strategy; monitors the operational and financial performance of the businesses; allocates resources across the Group; manages risk; and implements the Group's Operational Framework and governance policies.

The Group Chief Executive chairs the Executive Committee, which meets monthly. The members of the Committee are the executive directors, the President and the Chief Financial Officer of the Group's US operations, the Group HSE Director, the Chief People Officer and the Group Director of Corporate Affairs. Full details of the Executive Committee members can be found on the Group's website (www.chemring.co.uk).

Risk Management Committee

Oversees the implementation of the risk management policy and framework; identifies the principal risks to which the Group is exposed; monitors risk mitigation plans; and maintains the Group risk register.

See page 36

(Risk management)

Ethics & Compliance Committee

Oversees the Group's ethical business conduct and compliance framework; monitors the implementation of the framework across the Group and recommends areas for improvement in the future.

See page 59

(Ethics and business conduct)



Board activities in 2020

Leadership	Strategy
• Monitored the potential impact of CV-19 on the Group and the implementation of crisis management and business continuity plans • Reviewed the company's purpose, vision and values • Monitored culture through feedback on employee sentiment measured through "Employee Voice" • Approved the appointment of a new non-executive director • Approved updated terms of reference for Board committees • Completed the annual Board performance evaluation	• Approved the updated five-year plan and strategy for the Group • Engaged in a review with external advisers on: > the macro-economic environment and prospects for global defence budgets; > the global countermeasures market; > the electronic warfare market; and > potential opportunities within the chemical and biological detection markets. • Approved the disposal of Chemring Ordnance, Inc. • Reviewed progress on the US Programs of Record
Financial	Health, safety, environment and sustainability
• Monitored performance of the businesses against the 2020 budget • Reviewed liquidity and financing requirements against the backdrop of CV-19 • Approved the 2021 budget • Approved the half year results, and the annual report and accounts • Reviewed the Group's capital allocation policy, approved the interim dividend and made a recommendation for the final dividend	• Reviewed health and safety implications of CV-19 • Monitored health and safety key performance indicators on a monthly basis • Received briefings on significant incidents and high potential near misses • Considered the findings of an external review of maintenance practices completed at the high-hazard sites and the asset integrity standard adopted as a result • Approved the updated Group HSE Strategy and HSE Management System Framework, and reviewed progress against key objectives • Approved additional safety-related investment at the Tennessee facility
People and culture	Governance, risk and regulatory
• Received regular reports from the Remuneration Committee • Approved the appointment of Laurie Bowen as the non-executive director designated to engage with employees on the Board's behalf in place of Andrew Davies and considered the issues raised with Mrs Bowen by employees • Reviewed the updated people strategy • Considered progress on employee development initiatives and future plans • Received feedback on employee sentiment across the Group	• Established an Ethics & Compliance Committee • Reviewed the Group's risk register, and completed the annual assessment of the Group's internal control and risk management systems • Received regular updates from the Audit Committee • Considered an updated Brexit impact assessment • Received updates on key legal issues and regulatory matters impacting the Group • Received regular updates on significant whistleblowing reports • Approved the Group's Modern Slavery Act statement for 2020
Shareholders	
• Reviewed feedback from the results presentations and institutional investor meetings • Received updates from brokers and other advisers and the Group Director of Corporate Affairs on current shareholder views on the Group	



Board leadership and company purpose continued

How the Board monitors culture

Safety

- The Board monitors safety performance against key performance indicators on a monthly basis, including near miss reporting rates
- The Board receives regular updates from the Group HSE Director on progress against the HSE strategy, significant incidents and near misses, and key findings of our HSE assurance processes
- The Board is briefed by independent external consultants on their periodic review of the Group's progress on establishing a proactive safety culture

Employees

- Laurie Bowen, the non-executive director charged with employee engagement on behalf of the Board, provides regular feedback on her discussions with employees at all levels of the organisation
- The Board receives regular updates on employment sentiment across the Group measured through our real-time engagement tool, Employee Voice

Governance and business conduct

- The Ethics & Compliance Committee monitors ethical business conduct and implementation of the Group's compliance framework, and makes recommendations to the Board on areas for future improvement
- The Group Legal Director & Company Secretary reports to the Board on a monthly basis on governance and compliance matters
- The Group has a formal whistleblowing policy and procedures, and the Board is provided with an overview of whistleblowing reports received, related investigation findings and any remedial actions taken

Internal control and risk management

- The Audit Committee reviews internal audit reports produced by our internal auditors, PwC, and the Board considers any significant issues arising therefrom and any improvements required to our internal control systems
- The Board reviews the Group's risk register on a regular basis and has high-level oversight of mitigation plans implemented for key risks

How the Board considers stakeholders in its decision making

Details of how the Board engages with stakeholders and how the Board monitors stakeholder interests are set out on pages 16 to 19. Set out below are some examples of how the Board considered stakeholders in their decision making during the year.

Response to CV-19

- The Board ensured that the health and wellbeing of employees was prioritised in the Group's response to CV-19, that the businesses were complying with government guidance and that appropriate support was provided to employees
- The Board considered communications from customers regarding the criticality of the Group's ongoing operations and ensured that the businesses implemented appropriate business continuity plans to maintain deliveries to customers
- The Board engaged with shareholders on the Group's CV-19 response and provided regular updates on the impact on the business
- Shareholder views were considered by the Remuneration Committee when approving the remuneration and incentive-related outcomes for the senior leadership team
- The Board acknowledged the exceptional efforts made by all employees during the year in approving a staff recognition payment of £500 (or local currency equivalent) for every employee in the Group in December 2020

Strategy development

- As part of the annual strategy update, the Board commissioned external consultants to undertake a review of the Group's principal markets and the priorities of its key customers, which underpin the Group's growth strategy and development of the technology roadmap
- The Board also receives regular feedback from the businesses on the emerging technology requirements of their principal customers and future budget allocations, which are reflected in decisions regarding investment in operational capabilities and research and development
- In developing the Group's strategy, the Board continues to recognise the need for investment in people, processes and products to ensure that the businesses can operate safely for the benefit of all stakeholders
- The Board also considers feedback from shareholders when reviewing strategy, particularly with regards to capital allocation and future growth plans

Capital investment programme at Countermeasures USA

- In approving additional capital investment at the countermeasures business in Tennessee during the year, the Board considered how we could continue to improve safety for the employees on the site and strive to meet our key customers' future demand requirements



Employee engagement

Andrew Davies was designated as the non-executive director who would engage with employees on behalf of the Board up until March 2020, when the role was assumed by Laurie Bowen. Laurie held a number of remote meetings with employees at all levels of the organisation in the UK and in the US during the year, at which she shared with employees a perspective on the Board's priorities and provided an opportunity for them to ask questions of her. Whilst every meeting was different due to the nature of the businesses and the diversity of the employees who joined the meetings, the following topics were typically addressed at each meeting:

- the role of the Board and its responsibilities, and, where appropriate, how the UK and US Boards work together;
- application of the Group's values, particularly in relation to safety;
- leadership and vision;
- communications and employee engagement;
- relationships with customers and other stakeholders;
- collaboration within the Group; and
- training and employee development.

Feedback from the meetings was provided to the Board and will be reflected in future decision making.

We believe that Laurie's engagement with employees is currently proving effective, as evidenced by the openness and quality of the discussions with employees, and when combined with the feedback on employee sentiment the Board receives through Employee Voice, we have meaningful input into the Board's decision making processes. We will, however, continue to review the effectiveness of our approach to engagement with employees and all of our stakeholders.

Further details on employee engagement more broadly can be found on page 56.

Shareholder engagement and the Annual General Meeting

The Annual General Meeting provides an opportunity for all shareholders to engage directly with the Board. All directors are required to attend the meeting and make themselves available to take questions from shareholders or address any concerns raised by shareholders.

All substantial issues, including the adoption of the annual report and financial statements, are proposed on separate resolutions at the Annual General Meeting. In line with best practice guidelines, voting at the Annual General Meeting is usually conducted by way of a poll, which allows all votes to be counted, not just those of shareholders who attend the meeting.

Our next Annual General Meeting in March 2021 is likely to be subject to CV-19 related restrictions. The Notice of Annual General Meeting, which will be sent to shareholders in January 2021, will provide confirmation of the arrangements.

Board site visits

During the year, the Board as a collective visited Roke and received a presentation from the management team on their business performance, future strategy, and key opportunities and challenges. The Board had planned to visit Alloy Surfaces in the US in October and to meet in-person with our US Board but were prevented from doing so by CV-19-related travel restrictions.

Individual directors visited various sites during the first half of the year.

Site visits enable the Board to obtain a deeper understanding of the business operations, establish relationships with the wider management team and engage directly with employees. The Board generally receives a presentation from management and views the facilities where safe to do so. We hope to resume our programme of site visits in the coming year.

Leadership of the US businesses and the US Board

Our US Board is established under our Special Security Agreement ("SSA") with the US Government and includes three independent US directors approved by the US Government. The SSA imposes certain restrictions on the degree of control and influence we can exert over our US businesses and it is imperative that we maintain a strong relationship with the US Board, in order to ensure that we are fulfilling our own governance obligations. The Group Chief Executive and Group Finance Director are both members of the US Board.

The Chairman of the US Board and the President of our US operations attended several of our Board meetings during the year, including the meeting at which we conducted our annual review of the Group strategy. Our broader interaction with the US Board has increased in recent years, and the increased collaboration is proving very beneficial from both an operational and governance perspective. Our US Board also collates and provides valuable feedback from a range of both internal and external stakeholders in the US, and this is a key input into the annual strategy review.



Division of responsibilities

Composition of the Board, independence and operation

The Board currently comprises three executive directors and five non-executive directors (including the Chairman). The biographical details of individual directors, including details of their other business commitments, are set out on pages 64 and 65.

The Board considers all of the current non-executive directors to be independent in judgement and character, and considered Carl-Peter Forster to be independent on his appointment as Chairman.

The Board considers that the current balance of executive and non-executive influence on the Board is appropriate for the Company, taking into account its size and status, and serves to ensure that no single director or small group of directors dominate the Board's deliberations and decision making.

The roles of Chairman and Chief Executive are separate and clearly defined in accordance with the requirements of the Code, with the division of responsibilities set out in writing and agreed by the Board.

The Chairman meets regularly with the executive directors and other members of the Executive Committee outside of scheduled Board meetings. Interactions between the executive and non-executive directors also occur on a regular basis outside of Board meetings, and all of the non-executive directors provide support, as appropriate, with specific business requirements.

The Chairman serves as the conduit to ensure that the views of all of the executive and non-executive directors are reflected in the Board's discussions, and that decisions are taken by the Board as a whole.

Time commitment of directors

The Board recognises the importance of ensuring that individual directors have sufficient time available to discharge their duties effectively. Existing commitments of prospective directors are carefully considered prior to appointment and incumbent directors are required to notify the Chairman or, in the case of the Chairman the Senior Independent Director, if there are any significant changes to their external commitments.

Approval of directors' external appointments

In accordance with the Code, all proposed new external appointments of directors require the approval of the Board. During the year, the Board approved the appointment of the Chairman as a non-executive director and Senior Independent Director of Babcock International Group PLC. In approving this appointment, the Board satisfied itself that, following the cessation of certain of his other appointments, the Chairman continued to have the capacity to fulfil his obligations to the Group.

Conflicts of interest

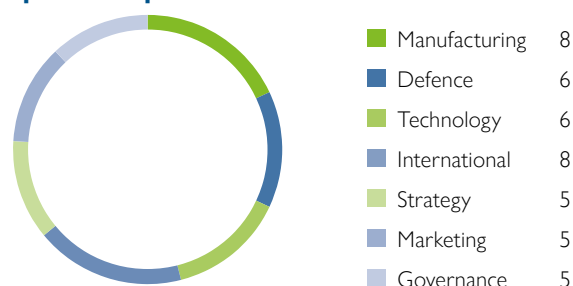
All directors have a duty under the Companies Act 2006 (the "2006 Act") to avoid a situation in which he or she has or can have a direct or indirect interest that conflicts or may possibly conflict with the interests of the Company. The Company's Articles of Association include provisions for dealing with directors' conflicts of interest in accordance with the 2006 Act. The Company has procedures in place to deal with situations where directors may have any such conflicts, which require the Board to:

- consider each conflict situation separately on its particular facts;
- consider the conflict situation in conjunction with the rest of their duties under the 2006 Act;
- keep records and Board minutes as to authorisations granted by directors and the scope of any approvals given; and
- regularly review conflict authorisation.

Experience of the Board

The members of the Board maintain the appropriate balance of experience and knowledge of the business to enable them to discharge their duties and responsibilities effectively.

Number of directors with applicable specific experience



Board roles and responsibilities

The key responsibilities of the Board members are set out below.

Chairman

- Responsible for the leadership of the Board and ensuring its overall effectiveness in directing the Group
- Ensures that the Board is kept properly informed and is consulted in a timely manner on all decisions reserved to it
- Promotes a culture of openness and debate, and facilitates constructive relations between the executive and non-executive directors
- Ensures that the training and development needs of directors are identified

Chief Executive

- Responsible for the leadership and day-to-day management of the business
- Develops strategy for Board approval and ensures that the agreed strategy is implemented successfully
- Presents the annual budget and five-year plan to the Board for approval and delivers agreed objectives
- Identifies new business opportunities, and potential acquisitions and disposals
- Manages the Group's risk profile, including the management of health and safety
- Ensures that the Board is fully informed of all key matters

Finance Director

- Supports the Chief Executive in developing and implementing the global finance strategy
- Oversees the finance functions across the Group
- Ensures effective financial controls and financial reporting processes are in place
- Ensures the Group has adequate bank facilities and financial resources

Senior Independent Director

- Provides support to the Chairman and acts as a trusted sounding board
- Reviews the Chairman's performance with the other non-executive directors
- Available to meet shareholders if they have concerns which cannot be resolved through the normal channels

Non-executive directors

- Participate in the development of strategic objectives, provide constructive challenge and monitor the performance of executive management in achieving the agreed objectives
- Monitor the Group's financial performance
- Consider the integrity of the Group's financial information, and whether the financial controls and risk management systems are robust and defensible
- Determine the appropriate remuneration policy for the executive directors
- Meet periodically with the Group's senior management and visit operations
- Meet regularly without the executive directors being present

Legal Director & Company Secretary

- Oversees legal matters and compliance across the Group
- Secretary to the Board and its committees
- Under the direction of the Chairman, responsible for maintaining good information flows within the Board and its committees
- Develops Board and committee agendas, and collates and distributes papers
- Assists with the induction of new directors
- Keeps directors informed about changes to their duties and responsibilities
- Provides advice on legal, regulatory and corporate governance matters



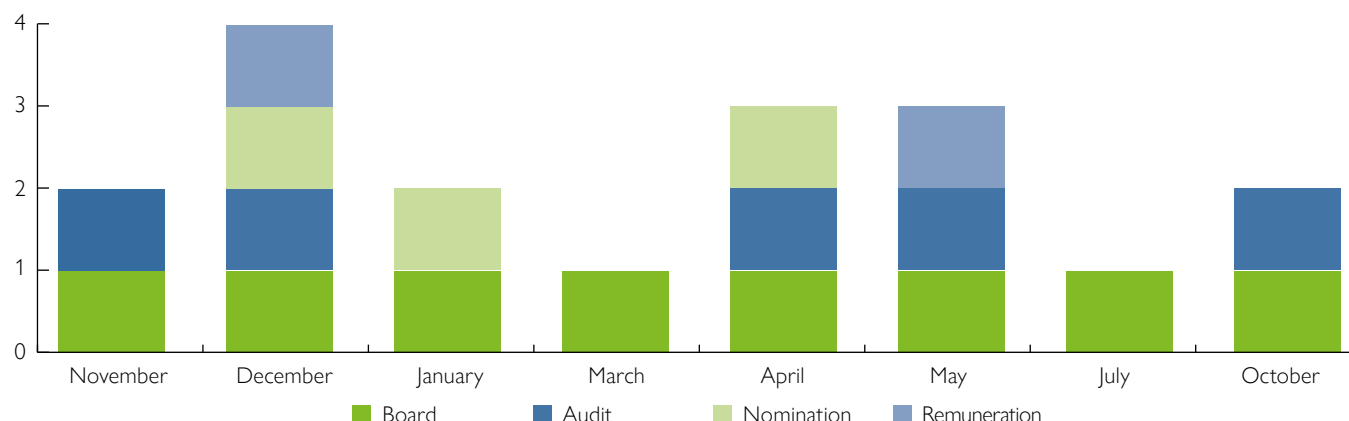
Division of responsibilities continued

Board meetings and attendance

The Board convenes for scheduled meetings at least seven times a year. The Board receives a report from the Executive Committee, covering health and safety performance, operational and financial performance, legal, people and investor relations related issues, as a standing agenda item at every scheduled meeting. Members of the senior leadership team, representatives of the US Board and external advisers attend Board meetings by invitation, as appropriate.

The Board aims to meet jointly with the Group's US Board, further details of which are set out on page 71, at least once a year.

Board and committee meetings held during the year



The following table shows the attendance of all directors who served during the year at the meetings of the Board and its committees:

Board member	Board (8 scheduled meetings and 6 ad hoc meetings)	Audit Committee (5 scheduled meetings)	Nomination Committee (3 scheduled meetings)	Remuneration Committee (2 scheduled meetings)
Carl-Peter Forster	14(14)	—	3(3)	2(2)
Laurie Bowen	14(14)	5(5)	3(3)	2(2)
Andrew Davies	14(14)	5(5)	3(3)	2(2)
Sarah Ellard	14(14)	—	—	—
Stephen King	14(14)	5(5)	3(3)	2(2)
Andrew Lewis	14(14)	—	—	—
Fiona MacAulay	3(3)	1(1)	—	—
Michael Ord	13(14)	—	—	—
Nigel Young	10(10)	3(3)	3(3)	1(1)

The maximum number of meetings which each director could have attended is shown in brackets.

In addition to the scheduled meetings, six ad hoc Board meetings were convened to deal with matters arising between scheduled meetings. During the year, the Chairman interacted regularly with the non-executive directors without the executives being present.

Composition, succession and evaluation

Board appointments and re-election of directors

New appointments to the Board and its committees are made by the Board on the recommendation of the Nomination Committee. Further details of the appointment process are set out in the Nomination Committee report on pages 80 and 81.

In accordance with the Company's Articles of Association, all directors are required to submit themselves for re-election at each Annual General Meeting. The papers accompanying the Notice of Annual General Meeting include a statement from the Chairman confirming that the performance of each non-executive director seeking re-election at the meeting continues to be effective and that each director continues to demonstrate commitment to their role.



Diversity

The Board recognises the importance of promoting diversity in its broadest sense, both at the Board level and across the entire business. The Board currently includes three female members and from a Board perspective has met the voluntary targets set out in the Hampton-Alexander Review that by 2020 at least 33% of Board should be female. We remain committed to further improving diversity on the Executive Committee and the wider senior leadership team.

Further details on the Board's approach to diversity are set out in the Nomination Committee report on pages 80 and 81.

Induction, training and development

An internal induction programme on the Group's operations, and its strategic and business plans, is provided for newly-appointed directors. Directors are invited to meet key members of the senior management team at the earliest opportunity, and site visits are arranged to facilitate their understanding of the Group's operations.

The Company Secretary also provides detailed information on the operation of the Board and its committees, directors' legal duties, and responsibilities on appointment.

The Company meets the cost of appropriate external training for directors, the requirement for which is kept under review by the Chairman.

Directors are continually updated on the Group's businesses and the matters affecting the markets in which they operate. The Group Legal Director & Company Secretary updates the Board on a regular basis with regards to regulatory changes affecting the directors and the Group's operations generally, and briefings are provided by the Group's advisers on key developments in areas such as financial reporting and executive remuneration practice.

Independent advice

All directors are entitled to take independent professional advice in furtherance of their duties at the Company's expense, should the need arise. No director had reason to seek such advice during the year.

Performance evaluation

The Code recommends that the performance evaluation of the Board be externally facilitated at least every three years. The Board selected Claire Howell of REDCO Ltd to facilitate the evaluation during the year. REDCO Ltd also provide the Company with advice regarding broader executive development.

Questionnaires were sent to each of the directors for completion and Ms Howell followed up with one-to-one conversations with each director. The review focused on:

- the Board's role and governance;
- operation of the Board and its committees;
- performance and risk monitoring;
- the role of the Chair and contributions of individual directors; and
- identification of areas in which the Board could improve its effectiveness.

The responses were consolidated into a report which was discussed with the Chairman prior to sharing with the remainder of the Board. Specific comments from directors were not attributed to individuals in order to provide full transparency on the responses.

The Board concluded that it had worked well together during the year and, with the most recent appointments, the balance of skills and experience on the Board was now considered appropriate. The Board identified certain actions to further improve its effectiveness, based on the principal conclusions of the evaluation process, and these will be addressed in the year ahead.

Actions for the year ahead

- Further development of the Board and Nomination Committee's focus on diversity, succession planning and talent management.
- Continuing focus on future strategic growth.
- Resumption of the Board's site visit programme.
- Further strengthening of the Board's interactions with key stakeholders.
- Increased interactions between the non-executive directors outside of scheduled Board meetings.

In addition to the formal performance evaluation, the Chairman and non-executive directors also reviewed the individual performance of the executive directors as part of the annual remuneration review.

Audit, risk and internal control

Financial and business reporting

The statement of directors' responsibilities in respect of the financial statements and accounting records maintained by the Company is set out on page 103.

Having taken all the matters considered by the Board and brought to the attention of the Board during the year into account, the Board is satisfied that the annual report and accounts for the year ended 31 October 2020, taken as a whole, is fair, balanced and understandable. Furthermore, the Board believes that the disclosures set out on pages 1 to 62 provide the information necessary to assess the Company's performance, business model and strategy.

Risk management and internal control

The Board is responsible for determining the nature and extent of the risks that it is willing to take to achieve its strategic objectives. The Board is also responsible for ensuring that the Group's risk management and internal control systems are effective across the businesses, and that appropriate risk mitigation plans are in place.

The Board undertakes an annual review of the effectiveness of the Group's systems of internal control, including financial, operational and compliance controls, and risk management systems. Further details of the review undertaken during the financial year ended 31 October 2020 are set out on page 37.

Operational Framework

Our Operational Framework, which was implemented on 1 January 2019, incorporates a broad range of policies and procedures which have now been adopted by all of our businesses, and provides an enhanced governance structure to enable us to operate in a safe, consistent and accountable way. As part of this enhanced governance structure, we have also introduced a requirement for all businesses to complete a detailed Operational Assurance Statement on a half-yearly basis, providing an assessment of their compliance with the Operational Framework.

The output from the operational assurance process provides assurance to the Board that our internal systems and controls are operating effectively, and will become an important focus for our internal audit and risk management activities in future.

Audit

Details of the Group's external and internal audit activities can be found in the Audit Committee report on pages 76 to 79.

Long-term viability statement

The Code requires the Board to undertake an annual assessment of the long-term viability of the Group, further details of which can be found on page 45.



Audit Committee report



Stephen King
Chairman of the Audit Committee

Audit Committee members

Stephen King (Chairman)

Laurie Bowen

Andrew Davies

Fiona MacAulay (appointed June 2020)

Introduction

I am pleased to present my report as Chairman of the Audit Committee.

The Audit Committee continues to play a very important role in the governance of the Group's financial affairs, both through monitoring the integrity of the Group's financial reporting and reviewing material financial reporting judgements. The report provides an overview of the operation of the Committee and its activities during the year. During the early part of the financial year, the Committee was focused on matters relating to the 2019 financial statements, which were covered in detail in last year's report. The report this year therefore focuses on the Committee's activities in relation to the 2020 half year and full year results, and the external and internal audit activity during 2020.

Membership of the Committee

The Audit Committee has been established by the Board and is responsible for monitoring the integrity of the Group's financial statements and the effectiveness of the internal and external audit process.

All members of the Committee are independent non-executive directors, and each brings a broad range of financial and business expertise. I have previously served as the finance director of substantial public companies, and therefore possess recent and relevant financial experience. The Board considers that the Committee members possess an appropriate level of independence and offer a depth of financial and commercial experience across various industries, in particular within the defence and technology sectors.

Key responsibilities of the Audit Committee

- Monitoring the integrity of the Group's financial statements and any formal announcements relating to the Group's financial performance, and reviewing the appropriateness of significant financial reporting judgements
- Providing guidance to the Board in its consideration of whether the annual report and accounts are fair, balanced and understandable
- Making recommendations on the appointment, reappointment and remuneration of the internal and external auditors
- Ensuring that an appropriate relationship between the Group and the external auditor is maintained, and overseeing the provision of non-audit services
- Reviewing and monitoring the external auditor's independence and objectivity
- Reviewing the effectiveness of the Group's internal controls and risk management systems
- Considering the effectiveness of the Group's internal audit function and monitoring internal audit activities

Operation of the Committee

The Committee's full responsibilities are set out in its terms of reference, which are available on the Company's website. The Committee reviews its terms of reference and its effectiveness annually, and recommends to the Board any changes required as a result of the review.

Meetings of the Committee are attended, at the invitation of the Chairman, by the external auditor, the Chairman of the Board, the Group Chief Executive, the Group Finance Director, the internal auditors and representatives from the Group finance function. The Committee meets with the external and internal auditors on a regular basis without the executive directors being present. The Company Secretary acts as secretary to the Committee and minutes of meetings are circulated to all Board members. Details of attendance of members of the Committee at the five meetings held during the year are shown on page 74.

A verbal report on key issues discussed by the Committee is provided to the Board after every meeting.

The Chairman of the Committee meets regularly with the Group Finance Director, the external audit lead partner and the internal audit lead partner outside of scheduled meetings.

The Committee is authorised to seek any information it requires from any employee of the Group in order to perform its duties, and to obtain any outside legal or other professional advice it requires at the Company's expense.



The Committee's activities during the year

Areas of focus	Matters considered
Financial reporting	- Content of the Group's interim and preliminary results announcements and the annual report, and in particular, whether the annual report was fair, balanced and understandable - Appropriateness and disclosure of accounting policies, key judgements and key estimates, including a focus on: - accounting for discontinued operations and assets held for sale, including associated impairments; - use of Alternative Performance Measures; and - implementation of IFRS 16, IFRS 9 and IFRIC 23. - The Group's going concern status and viability statements
Risk and control environment	- Effectiveness of the Group's systems of internal control - Implementation of new ERP systems across the Group - Consistency and effectiveness of forecasting methodologies
External audit	- Interim review and full year audit plans - Planning for the external audits of the US businesses - Effectiveness and independence of the external auditor - Non-audit services provided by the external auditor - External auditor's reports on the half year and full year results, and consideration of points raised by the auditor
Internal audit	- Internal audit plan - Effectiveness of the internal auditors and their key findings

The Committee relies on regular reports from the executive directors, the wider management team, and the external and internal auditors in order to discharge its responsibilities. The Committee is satisfied that it received timely, sufficient and reliable information to enable it to fulfil its obligations during the year.

Financial reporting

A summary of the significant issues considered in relation to the 2020 financial statements is set out below.

IFRS 16 *Leases* became effective for accounting periods beginning on or after 1 January 2019. The new standard requires lessees to recognise nearly all leases on the balance sheet to reflect their right to use an asset for a period of time and the associated liability for payments. The Committee reviewed the impact of the new standard on the Group during the year, and considered the judgements and key assumptions used in the assessment of the impact. The Committee agreed that the Group would account for leases with a minimum value of £50,000 under IFRS 16. The Group's 2020 financial statements have been prepared under the new standard.

IFRIC 23 *Uncertainty over Income Tax Treatments* addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes* and became effective for accounting periods beginning on or after 1 January 2019. The Committee reviewed the tax provisions held by the Group at 31 October 2019, and concluded that on adoption, IFRIC 23 had no material impact on the Group's current tax provisions.

The Committee also reviewed the report issued by the Financial Reporting Council in July 2020 on its thematic review of the financial reporting effects of CV-19 and considered how the recommendations had been addressed in the 2020 financial statements.



Audit Committee report continued

Key matters considered by the Committee in relation to the financial statements

Revenue recognition policies and procedures

The Committee reviews the Group's revenue recognition policies and procedures on an ongoing basis, to ensure that they remain appropriate and that the Group's internal controls are operating effectively in this area. The Committee considered the key assumptions underlying the accounting treatment of any material contract with a customer where judgement on revenue recognition was required.

Recoverability of goodwill, other intangible assets, and the parent company's investments in, and intergroup receivable balances with, subsidiaries

The Committee considered the carrying value of goodwill, intangible assets and the parent company's investments in, and intergroup receivable balances with, subsidiaries held on the balance sheet as at 30 April 2020 and 31 October 2020, against the latest forecasts for the businesses concerned and the future strategic plan for the Group.

Held for sale/discontinued operations

The Committee agreed the presentation of the results of businesses held for sale/discontinued operations.

Capitalised development costs

The Committee continued to monitor the level of development costs capitalised during the year and the periods over which such costs are to be amortised. Detailed reviews of the Group's most significant research and development projects, and their associated capitalised development costs, were undertaken by the Committee in April 2020 and October 2020. It was concluded that no impairment charges were required in 2020.

Alternative Performance Measures

The Committee reviewed the use of Alternative Performance Measures in the interim report and the annual report. The Committee concluded that the use of Alternative Performance Measures did enhance a reader's understanding of the accounts and were presented in a fair, balanced and understandable manner.

Accounting for insurance claim recoveries

The Committee considered the appropriate accounting treatment of insurance claim recoveries received in respect of the 2018 incident at the UK Countermeasures site, £5.2m of which was included in the results for the year.

Contingent liabilities

The Committee considered the appropriate accounting treatment of the Group's potential tax liability which may arise as a result of the European Commission's judgement in April 2019 that the UK's Controlled Foreign Company exemptions may breach state aid rules. The Committee concluded that it would be appropriate to treat this as a contingent liability.

The Committee is required to consider whether it is appropriate to adopt the going concern basis in preparing the interim and full year results. In order to satisfy itself that the Group has sufficient financial resources to enable it to continue trading for the foreseeable future, the Committee regularly reviews the adequacy of the Group's financing facilities against future funding requirements and working capital projections. Based on its review of the Group's forecasts during the year and discussions with the external auditor, the Committee recommended to the Board the adoption of the going concern basis for the preparation of the interim and full year results.

The Group is also required to make a statement on its long-term viability in the financial statements. The Committee considered the period over which the Group's viability would be assessed and having concluded that

a three-year period was appropriate, the Committee undertook a review of the analysis and projections which supported the viability assessment prior to submission to the Board. Further details on the assessment process, which also considered the potential impact of CV-19 on the Group, and the Group's long-term viability statement are set out in the strategic report on page 45.

Since the year end, the Committee has reviewed the form and content of the 2020 annual report and accounts, and confirmed to the Board that, taken as a whole, the annual report and accounts is fair, balanced and understandable. The Committee also concluded that the annual report and accounts provides the information necessary to assess the Group's position and performance, business model and strategy.

In making this assessment, the Committee considered:

Is the report fair?

- Is the narrative in the strategic report consistent with the financial statements?
- Have any significant matters been omitted?

Is the report balanced?

- Has appropriate prominence been given to both positive and negative aspects of performance during the year?
- Is there an appropriate balance between the disclosure of statutory measures of performance and Alternative Performance Measures ("APMs")?

Is the report understandable?

- Is the presentation of performance clear, with consistent use of key performance indicators?
- Is there clarity around the use of APMs?

External audit

The Audit Committee is responsible for making recommendations to the Board on the appointment, reappointment and removal of the Company's external auditor. The Committee also undertakes an annual assessment of the auditor's independence and objectivity, taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services.

Audit effectiveness

The Committee assesses the effectiveness of the external auditor on an ongoing basis, with particular reference to:

- the arrangements for ensuring the external auditor's independence and objectivity;
- the external auditor's fulfilment of the agreed audit plan and any variations from the plan;
- the robustness and perceptiveness of the auditor in their handling of the key accounting and audit judgements;
- the effectiveness of co-ordination of the individual business unit audits on a global basis;
- the content of the external auditor's reports and internal control recommendations; and
- the feedback received on the conduct of the external audits from key people involved in the audit process.



External audit continued

Audit effectiveness continued

There are no contractual or similar obligations to restrict the choice of external auditor.

KPMG LLP was appointed as the Group's external auditor in March 2018, following a tender process, and Andrew Campbell-Orde has acted as audit partner since the appointment.

Following the 2019 year-end audit, it was identified that co-ordination between KPMG's UK and US audit teams and the planning for the audits of the US businesses could be improved. The US audits are carried out by KPMG US under a separate engagement letter in order to satisfy the requirements of our Special Security Agreement with the US Government. The 2020 audit plan provided for planning work for the 2020 year end audits of the US businesses to commence in the first half year of the financial year and this resulted in a more efficient audit of the consolidated Group results at the year end. The Committee reviewed KPMG's overall effectiveness in fulfilling the external audit during the year and concluded that KPMG had conducted a comprehensive, appropriate and effective audit.

The Committee has recommended to the Board that KPMG be reappointed as the Group's auditor at the 2021 Annual General Meeting.

Auditor independence

The Committee keeps under review the level of any non-audit services which are provided by the external auditor, to ensure that this does not impair their independence and objectivity.

The Committee has adopted a policy which states that the external auditor should not be appointed to provide any non-audit services to the Group, unless the Committee agrees that their appointment would be in the best interests of the Company's shareholders in particular circumstances and would not create any direct conflict with their role as external auditor. In approving any such appointment, the Committee is also required to consider:

- whether the provision of the proposed services might compromise the auditor's independence or objectivity;
- whether the non-audit services will have a direct or material effect on the Group's audited financial statements;
- whether the skills and experience of the external auditor make it the most suitable supplier of the non-audit services; and
- the level of fees proposed for the non-audit services relative to the audit fees.

The external auditor is required to provide the Committee with a written confirmation of independence for all duly approved engagements for non-audit services.

The policy adopted by the Committee expressly prohibits the provision of certain non-audit services by the external auditor, in line with regulatory requirements and UK ethical guidance.

Details of the amounts paid to the external auditor during the year for audit and non-audit services are set out in note 4 to the Group financial statements. Total fees of £0.1m were paid to KPMG during the year in respect of non-audit services, which related to the review of the interim results, a government grant audit for Chemring Australia and an audit report for Chemring Nobel's tax return as is required from the auditor under Norwegian tax law. The Committee concluded that neither the nature or scope of these services gave rise to any concerns regarding the objectivity or independence of KPMG.

The Committee, in conjunction with the Group Finance Director, ensures that the Group maintains relationships with a sufficient choice of appropriately qualified alternative audit firms for the provision of non-audit services.

Internal audit

The Audit Committee is responsible for reviewing the work undertaken by the Group's internal auditor, assessing the adequacy of the internal audit resource, and recommending changes for increasing the scope of the internal audit activities.

The Group's internal audit programme incorporates a review of all sites on a two or three-year rotational basis, and focuses on both financial and non-financial controls and procedures. The Committee approves the annual internal audit plan and receives regular reports from the internal auditor.

The internal audit programme is managed by PwC, who were appointed by the Committee in 2018. The programme covers financial and commercial processes, governance issues, and key corporate risks. Where appropriate, suitably-qualified employees of the Group participate in internal audits on other Group businesses in which they have no direct involvement, with oversight from PwC. This facilitates sharing of best practice across the Group and contributes to the development of employees involved in the audits.

The internal audit plan for 2020 included specific focus on:

- the key financial and operating controls within the business;
- IT and cyber-security governance and controls;
- ERP system implementation;
- forecasting methodologies and effectiveness across the Group; and
- the Group's anti-bribery and corruption processes compared to best practice standards.

Restrictions on travel and visitor access to our sites as a result of CV-19 resulted in fewer physical on-site internal audits being carried out than had originally planned but PwC followed the plan as closely as possible under the circumstances and were able to complete all of their planned thematic reviews.

PwC presents its internal audit reports to the Committee on a quarterly basis. The management of each business is responsible for implementing the recommendations made by the internal auditors, and the Committee reviews progress on a regular basis. Progress on addressing internal audit findings is also reviewed by the Group Chief Executive and the Group Finance Director in their quarterly reviews with each of the businesses.

Having undertaken a review of the effectiveness of PwC in fulfilling the internal audit function, the Committee is satisfied that the quality, experience and expertise of PwC meet the Company's requirements, and PwC has therefore been reappointed to provide internal audit services for the Group in 2021. The Committee also reviewed the level of utilisation of Group employees on individual audits with PwC to ensure that the overall degree of independence on the internal audit programme remained appropriate.

In 2021 the work programme for internal audit will continue on a site rotation basis and PwC will create bespoke risk-based testing plans for each site. PwC will also continue with their thematic reviews of selected Group-wide internal control systems and processes. The audit plan is developed with input from the Committee and the executive directors, and with due regard to the key risks on the Group's risk register.

Stephen King

Chairman of the Audit Committee

15 December 2020



Nomination Committee report



Carl-Peter Forster

Chairman of the Nomination Committee

Membership of the Committee

The Nomination Committee's key role is to ensure that the Board has the appropriate skills, knowledge and experience to operate effectively and deliver the Group's strategy.

All members of the Committee are independent non-executive directors. I chair the Committee but will not do so where the Committee is dealing with my own reappointment or replacement as Chairman of the Board.

Key responsibilities of the Nomination Committee

- Reviewing the structure, size and composition of the Board, and making recommendations on appointments to the Board and to Board committees
- Reviewing the overall leadership needs of the organisation
- Succession planning for the Board and the Executive Committee

Operation of the Committee

The Committee's responsibilities are set out in its terms of reference, which are available on the Company's website. The Committee reviews its terms of reference and its effectiveness annually, and recommends to the Board any changes required as a result of the review.

The Board performance evaluation completed during the year considers the potential requirement for additional appointments to the Board. Whilst we are satisfied with the current composition, we will continue to review the position, keeping in mind the benefits of increased diversity on the Board.

Meetings of the Committee are attended, at the invitation of the Chairman, by the Group Chief Executive when considered appropriate. Members of the Committee do not participate in any discussions relating to their own reappointment or replacement. The Company Secretary acts as secretary to the Committee and minutes of meetings are circulated to all Board members. Details of attendance of members of the Committee at the three meetings held during the year are shown on page 74.

Board composition

The Committee regularly reviews the composition and balance of the Board and its committees, and considers non-executive directors' independence, whether the balance between non-executive and executive directors remains appropriate, and whether the Board has the requisite skills and experience to oversee delivery of the agreed strategy for the Group.

The Board performance evaluation completed during the year considered the requirement for additional appointments to the Board. Whilst we are satisfied with the current composition, we will continue to review the position, keeping in mind the benefits of increased diversity on the Board.

As referred to above, Fiona MacAulay was appointed to the Board as an independent non-executive director during the year on the recommendation of the Committee.

Appointments to the Board

The Committee is responsible for reviewing and recommending new appointments to the Board, and oversaw the process which resulted in the appointment of Fiona MacAulay during the year.

Fiona joined the Board as a non-executive director on 3 June 2020 as the result of a search process which was initiated in preparation for Nigel Young's planned retirement in April 2020. Russell Reynolds was appointed by the Committee to assist with the search. A candidate brief was drawn-up, with emphasis on the requirement for increased diversity of gender and/or nationality on the Board. Russell Reynolds was selected by the Committee to facilitate the search, given their contemporary knowledge of the Group, having recruited two non-executive directors in 2018 and 2019, and understanding of the Board's requirements.

Nomination Committee members

Carl-Peter Forster (Chairman)

Laurie Bowen

Andrew Davies

Stephen King

Fiona MacAulay (appointed June 2020)

Introduction

I am pleased to present the Nomination Committee's report for the year ended 31 October 2020.

The main focus of the Committee during the year was on the appointment of another independent non-executive director to replace Nigel Young following his retirement in April 2020. As the result of this process, Fiona MacAulay joined the Board on 3 June 2020. Further details of the appointment process are set out below.

During the year the Committee also took the requisite actions to ensure we were operating in compliance with the UK Corporate Governance Code published in July 2018.



Appointments to the Board *continued*

Russell Reynolds provided an initial long-list of potential candidates, following which members of the Committee met with a number of short-listed candidates and reviewed their respective skills and experience against the initial brief. The Committee also considered how each of the candidates would complement the Board. The Committee then selected two preferred candidates to meet the rest of the Board and having considered feedback from all of the directors, the Committee made a recommendation to the Board to appoint Fiona MacAulay.

Russell Reynolds, which has no other connection with the Group, is a signatory to the Voluntary Code of Conduct for Executive Search Firms and has made a commitment to promoting diversity.

Succession planning

The Committee is responsible for promoting effective succession planning for the Board and the Executive Committee, to ensure that the leadership of the business remains aligned to the Group's strategy.

Following the appointment of a Chief People Officer in 2018, we have increased our focus on leadership and future talent development and succession planning across the entire business. Developing and retaining employees at all levels of the organisation is vital to delivery of our strategy, and this will be an increased area of focus for the Committee in the year ahead.

We have established succession plans for the Board and key members of the Executive Committee, covering both emergency replacements and longer-term appointments.

Diversity

The Committee recognises the importance of diversity and inclusion to the effective performance of the Board, and to our wider business operations. We are committed to promoting diversity across the Group in all forms, including diversity of gender, race, age, disability, sexual orientation, cultural background and belief.

The Committee is cognisant of the voluntary targets set out in the Hampton-Alexander Review that by 2020 at least 33% of Board and Executive Committee members, and their direct reports, should be female. We met this target from a Board perspective with the appointment of Fiona MacAulay during the year and we continue to aspire to further improving female representation across the broader senior leadership team over the next few years. The Committee will also have regard to the recommendations set out in the Parker Review on ethnic diversity when recommending future appointments to the Board.

The charts opposite illustrate the current gender diversity of the Board, the Executive Committee, our senior managers and all employees across the Group. Senior managers are generally directors and functional heads within head office and the business units.

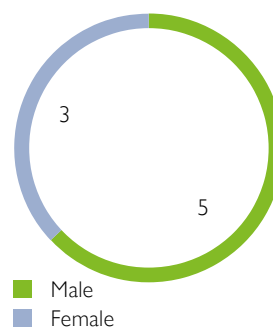
Further details on diversity and inclusion at Chemring are set out on page 57.

Carl-Peter Forster

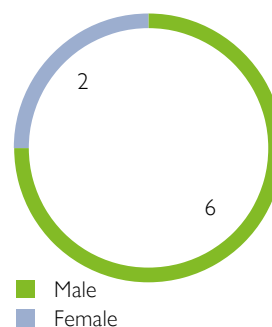
Chairman of the Nomination Committee
15 December 2020

Diversity

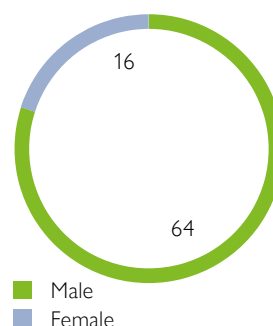
Board



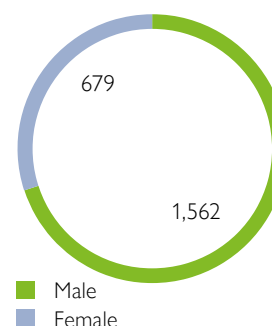
Executive Committee



Senior managers



All employees





Directors' remuneration report

Remuneration overview



Laurie Bowen

Chairman of the Remuneration Committee

Remuneration Committee members

Laurie Bowen (Chairman)

Andrew Davies

Carl-Peter Forster

Stephen King

Fiona MacAulay (appointed June 2020)

Introduction

The directors' remuneration report for the year ended 31 October 2020 comprises:

- my annual report on the activities of the Remuneration Committee during the year;
- the annual report on remuneration, which explains how the directors' remuneration policy was implemented in 2020;
- additional statutory information on remuneration arrangements;
- a summary of the directors' remuneration policy which was approved in 2019; and
- an overview of how the policy will be implemented in 2021.

Our directors' remuneration policy was approved by shareholders at the 2019 Annual General Meeting, with 90.7% of shareholders having voted in favour. A summary of the approved policy which applied during the year is set out on pages 95 to 97. The full policy can be found in the 2018 directors' remuneration report in the 2018 annual report and accounts, which is published on the Company's website.

Membership and operation of the Remuneration Committee

The Remuneration Committee has been established by the Board and is responsible for the remuneration of the executive directors, the Chairman and the leadership team at the next level. All members of the Committee are independent non-executive directors, save for Mr Forster who was independent on appointment to the Board.

The Committee's responsibilities are set out in its terms of reference, which are available on the Company's website.

Details of the attendance of members of the Committee at meetings held during the year are shown on page 74. The Group Legal Director & Company Secretary acts as secretary to the Committee, and the Group Chief Executive, the Group Finance Director and the Chief People Officer attend meetings by invitation, but no executive director or other employee is present during discussions relating directly to their own remuneration.

I assumed the Chairmanship of the Committee on 4 March 2020.

The Remuneration Committee's activities during the year

This is my first report since becoming Chair of the Remuneration Committee in March 2020, when I took over from Andrew Davies. I would like to thank Andrew for his hard work and effectiveness in the role. I am relatively new to the Board having joined in August 2019 and I am delighted to bring to the role my experience from serving for several years on a remuneration committee. I have taken the opportunity to take a fresh look at Chemring's executive remuneration to which shareholders gave strong support for the directors' remuneration policy which was last approved in 2019. I am looking forward to engaging with our shareholders in 2021 as we review the directors' remuneration policy which shareholders will be asked to approve at the Annual General Meeting in 2022.

This year, the Committee's decisions have been made particularly carefully in light of the extraordinary impact of CV-19 on the economy, on markets as a whole and indeed on all our stakeholders. Our operations in the UK, the US and Norway were designated as critical, and our businesses have remained open throughout. We did not receive any government furlough funding (or overseas equivalent) for employees and, in October 2020, we repaid early the £50m short-term debt facility secured at the start of the pandemic. An interim dividend was paid in September and the Board is recommending the payment of a final dividend of 2.6p per ordinary share.

The performance of the business has been excellent as the annual report describes – see page 1. The order pipeline is strong and we announced in September that Chemring Countermeasures USA had secured two important new contracts with the US Navy and the US Air Force.

This performance owes a great deal to the commitment and contribution of all our employees, each of whom will receive a payment of at least £500 (or local currency equivalent) for their contribution during what has been a very challenging year. It is also important to recognise the performance of Michael Ord, who completed his second year as Group Chief Executive in July 2020. Under his leadership, the share price has increased by 25% over the financial year. Chemring's relative total shareholder return over the three years to the end of October 2020 was 48.9% and the Company was promoted to the FTSE 250 Index in March 2020.

During the year, the Committee made three important policy decisions. The Committee evaluated Chemring's practice in relation to the alignment of the pension arrangements of the executive directors to those of UK-based employees. The pension arrangements in the UK vary widely and, when we last analysed company contributions, they ranged from 4% to 20% of salary. The Committee has decided that the value of the pension contributions for all executive directors will be aligned with that for employees with effect from November 2022.

The Committee also agreed to introduce a new mechanism to ensure that executive directors continue to hold shares after they step down from the Board to the value of the shareholding guideline (i.e. 200% of salary or the existing shareholding if lower at the time) for two years after they leave the Board. Any awards of shares under the Performance Share Plan (the "PSP") made from November 2021 will count toward the shareholding. Previous awards will continue to be subject to the three-year vesting and two-year holding period following cessation of employment. The new commitment will formally be incorporated into the next directors' remuneration policy which will be submitted to shareholders for approval at the 2022 Annual General Meeting.



Finally, the Committee also on a prospective basis changed the comparator group for the relative TSR performance condition adopted in the PSP. The comparator group previously comprised a small group of peer companies operating in the defence and technology sectors but increasing consolidation in these sectors reduced the size of the robust comparator group. Against this background, the Committee agreed that relative TSR would be measured against the FTSE All-Share (excluding investment trusts) for the PSP awards made in December 2019 and thereafter.

Summary of major activities and decisions of the Committee in 2020

Salary	2020 salary reviews for the executive directors and members of the senior leadership team
Annual bonus	- Consideration of the 2019 annual bonus plan outturn - Approval of the 2020 annual bonus plan financial targets and personal objectives for the executive directors - Approval of changes to the structure of the 2020 annual bonus plan for the business unit management teams - Approval of the 2020 annual bonus plan payments
Performance Share Plan ("PSP")	- Consideration of vesting outcomes for PSP awards made in 2018 - Approval of 2020 PSP awards and performance conditions, including changes to the TSR comparator group - Consideration of adjustments to performance targets following completion of the disposal of the commoditised energetics businesses
Governance	Review of governance and reporting requirements in relation to directors' remuneration
Other	- Agreement of timeframe for alignment of executive directors' pension contributions - Adoption of post-employment shareholding policy - Review of annual directors' remuneration report

Performance outcomes

Performance against the 2020 annual bonus and PSP targets is explained in more detail on pages 86 to 88 but in summary:

- Annual bonus:** The EPS and operating cash flow targets within the annual bonus plan, which were set on a challenging basis at the start of the year, were fully achieved and hence 100% of bonus entitlement in respect of financial performance is payable to the executive directors. Performance against the 2020 personal objectives was strong and the objectives were deemed to have been 90% satisfied, resulting in a total bonus payment of 98% of the maximum for each of the executive directors. The Committee discussed whether any downward adjustment should be made to annual bonus payments and took the view that, as a matter of principle, the exceptional performance of the leadership team should be fully acknowledged and rewarded, and that stakeholders' needs were best served by paying out bonuses as earned.
- PSP awards (subject to performance in the year ended 31 October 2020):** Both the EPS performance condition and the TSR performance condition were fully satisfied, and awards granted in January 2018 will therefore vest at 100% of total award value on 19 January 2021.

Implementation of the policy for 2021

Base salaries were reviewed in November 2020 and increases will be made effective from 1 January 2021.

The Committee took the opportunity to review the salary of the Group Chief Executive in light of his exceptional performance over the last two years and his development in the role since his appointment in July 2018. His salary on appointment reflected the fact that this was his first role as a chief executive. Across the two financial years to 31 October 2020, he has had a transformative effect on the Group. The market capitalisation of the business has increased almost 45% and the Company has been promoted into the FTSE 250 Index. During this time, financial and operational performance has also been strong. The market for talent across the Group is tight and some significant adjustments to pay have been necessary for members of the leadership team. The Committee considered Michael Ord's individual development, his performance in the role, the internal differentials and the external market data for similarly-sized companies by market capitalisation. The Committee increased Mr Ord's base salary by 6.6% on top of the general budgeted increase for UK employees of 3%, to £483,000 from 1 January 2021. The Committee is mindful of the need to demonstrate pay restraint with regards to executive directors but also believes it is crucial and indeed fair to recognise the development and leadership qualities of the Group Chief Executive, which have been comprehensively demonstrated over the last two years. He has a vital role to play in taking Chemring to the next stage of its development.

The Committee reviewed the base salary of the Group Finance Director. The Remuneration Committee wanted to acknowledge Andrew Lewis's development and strong performance in the role since his appointment in 2017. He has played a key role in support of the Group Chief Executive. The Committee decided that an additional base salary increase of 2% on top of the general budgeted increase for UK employees of 3% to £369,280 should be awarded.

The base salary for the Group Legal Director & Company Secretary will increase by 3% of salary in line with the budgeted increase for UK employees. Her base salary was also adjusted with effect from 1 November 2020 to reflect that her contractual hours have reverted to a full-time equivalent position.

Although the average budgeted increase for UK employees is 3% of salary, there have been market adjustments and promotion increases throughout the business at all levels. The Group Chief Executive and the Group Finance Director are not therefore being singled out for special treatment but are being treated in the same way as other employees at all levels where performance, development and market alignment are being recognised and addressed.

No changes will be made to the structure of the annual bonus plan or to PSP awards for the executive directors for 2021. No other changes are proposed to the implementation of the directors' remuneration policy for 2021. The directors' remuneration policy will be reviewed during the course of 2021 before its scheduled renewal at the 2022 Annual General Meeting.

Conclusion

I hope you will find this report helpful and informative and that you will support the resolution on the annual report at our forthcoming Annual General Meeting. Please do not hesitate to contact me on executive directors' remuneration matters via Sarah Ellard, Group Legal Director & Company Secretary, at sarahe@chemring.co.uk.

Laurie Bowen

Chairman of the Remuneration Committee
15 December 2020



Directors' remuneration report continued

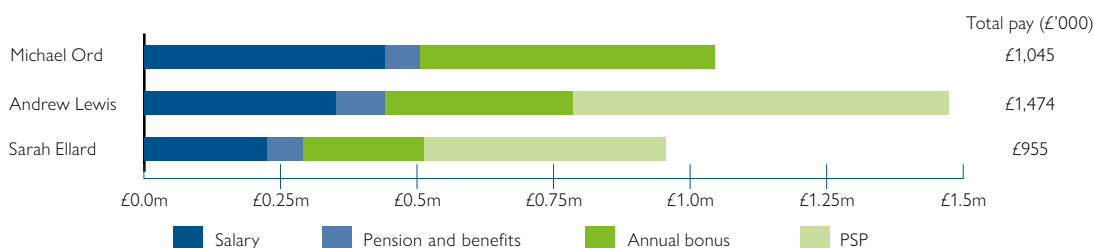
2020 remuneration at a glance

2020 remuneration year in summary

Salary	Salary increases for Michael Ord, Andrew Lewis and Sarah Ellard of 2.5%, which was below the average budgeted salary increase for UK employees.
Annual bonus	Bonuses payable for 2020 performance as follows: • Michael Ord – 122.5% of salary (£539,918) • Andrew Lewis – 98% of salary (£344,662) • Sarah Ellard – 98% of salary (£221,681)
Performance Share Plan	Awards granted Awards made in December 2019, valued at 150% of salary, with earnings per share and total shareholder return performance conditions measured over a three-year period, and a two-year holding period post vesting. Awards vesting Awards made in January 2018, which were subject to performance conditions measured over the three years ended 31 October 2020, will vest at 100% of award value on 19 January 2021.
Shareholding	Shareholding guideline of 200% of base salary.
Chairman and non-executive director fees	No change to the fees for the Chairman and non-executive directors.

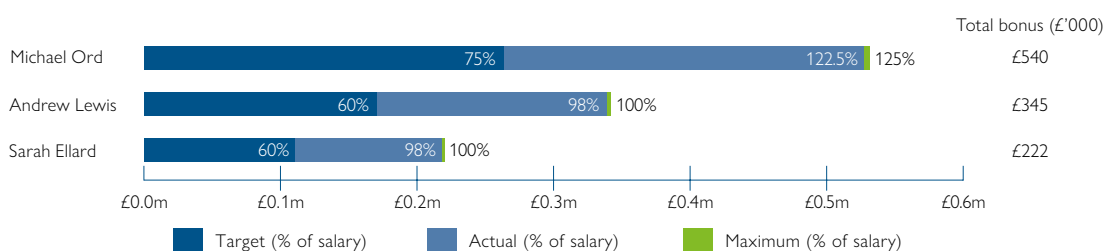
Executive directors' total pay

This chart illustrates the total remuneration received by the executive directors in 2020.



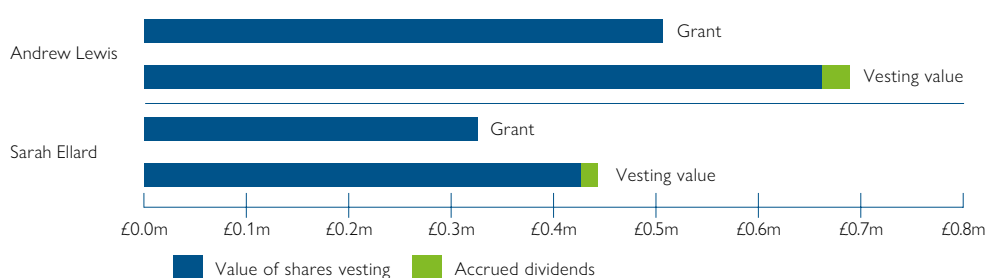
Annual bonus plan outcome

This chart illustrates the bonuses payable for performance in 2020. 60% of the bonus amount is payable in cash and 40% will be satisfied by way of an award of shares deferred for three years.



Performance share plan outcome

This chart illustrates the total value of the performance share plan awards granted to the executive directors on 19 January 2018 that will vest on 19 January 2021, based on 100% vesting of awards. The grant value is based on the share price on the grant date and the vesting value is calculated on the same basis as in the directors' emoluments table on page 85.





Annual report on remuneration

This part of the report explains how the directors' remuneration policy was implemented in 2020. The auditor has reported on certain sections of this report and stated whether, in its opinion, those sections have been properly prepared in accordance with the Companies Act 2006. Those sections subject to audit are clearly indicated.

Directors' emoluments (audited)

The emoluments of all the directors who served during the year are shown below:

	Year	Salaries/ fees £'000	Taxable benefits ¹ £'000	Pension benefits ² £'000	Total fixed pay £'000	Bonus (cash and deferred shares) ³ £'000	PSP ⁴ £'000	Total variable pay £'000	Total £'000
Executives									
Michael Ord	2020	440	21	44	505	540	—	540	1,045
	2019	430	21	43	494	527	—	527	1,021
Andrew Lewis	2020	350	20	70	440	345	689	1,034	1,474
	2019	341	20	68	429	336	371	707	1,136
Sarah Ellard ⁵	2020	225	20	45	290	222	443	665	955
	2019	220	20	44	284	216	239	455	739
Non-executives									
Carl-Peter Forster	2020	200	—	—	200	—	—	—	200
	2019	200	—	—	200	—	—	—	200
Laurie Bowen ⁶	2020	62	—	—	62	—	—	—	62
	2019	14	—	—	14	—	—	—	14
Andrew Davies ⁷	2020	58	—	—	58	—	—	—	58
	2019	65	—	—	65	—	—	—	65
Stephen King ⁸	2020	65	—	—	65	—	—	—	65
	2019	53	—	—	53	—	—	—	53
Fiona MacAulay ⁹	2020	23	—	—	23	—	—	—	23
	2019	—	—	—	—	—	—	—	—
Nigel Young ¹⁰	2020	28	—	—	28	—	—	—	28
	2019	63	—	—	63	—	—	—	63
Total remuneration	2020	1,451	61	159	1,671	1,107	1,132	2,239	3,910
	2019	1,386	61	155	1,602	1,079	610	1,689	3,291

Notes:

1. Comprises an annual car allowance of £20,000 for Michael Ord and £19,350 for each of Andrew Lewis and Sarah Ellard, plus private medical insurance for each of the executive directors.
2. Michael Ord receives a cash supplement of 10% of salary in lieu of occupational pension scheme membership and the other executive directors receive a cash supplement of 20% of salary.
3. 40% of any bonus is delivered as an award of deferred shares.
4. PSP awards granted in January 2018, which were based on performance over the three years ended 31 October 2020, will vest in January 2021 and the estimated values, based on the average share price over the three-month period ended 31 October 2020, equating to 249p per share, plus the value of accrued dividends have been included in the 2020 emoluments. PSP awards granted in March 2017 vested on 24 March 2020 and have been included in the 2019 emoluments at the actual value on the date of vesting. £154,690 of the value of Mr Lewis's award which is due to vest in January 2021 is attributable to share price growth since the date of grant and £99,494 for Mrs Ellard. None of the value of the awards which vested in March 2020 for Mr Lewis and Mrs Ellard is attributable to share price growth as the share price fell between the date of grant and the vesting date.
5. Sarah Ellard's salary and pension benefits for the years ended 31 October 2020 and 31 October 2019 were based on her contracted working hours of 90% of the full-time equivalent.
6. Laurie Bowen was appointed as a non-executive director on 1 August 2019 and was appointed as Chairman of the Remuneration Committee on 4 March 2020, for which she received an additional fee of £10,000 per annum with effect from that date, included in the above figures on a pro-rated basis.
7. Andrew Davies received an additional fee of £10,000 per annum, included in the above figures on a pro-rated basis, in respect of his Chairmanship of the Remuneration Committee up until 4 March 2020.
8. Stephen King was appointed as a non-executive director on 1 December 2018 and was appointed as Chairman of the Audit Committee on 1 August 2019, for which he received an additional fee of £10,000 per annum with effect from that date, included in the 2019 figures above on a pro-rated basis.
9. Fiona MacAulay was appointed as a non-executive director on 3 June 2020.
10. Nigel Young, who retired as a non-executive director on 30 April 2020, received an additional fee of £10,000 per annum, included in the 2019 figures above, in respect of his Chairmanship of the Audit Committee up until 31 July 2019.

Amounts shown above in the salaries and fees column relate to base salary in the case of executive directors and fees in the case of non-executive directors.



Directors' remuneration report continued

Annual report on remuneration continued

Base salary and benefits paid during the year (audited)

Salaries for the executive directors were reviewed in December 2019 and a 2.5% increase, with effect from 1 January 2020, was approved by the Committee. The increase was below the average budgeted increase for the UK workforce. The salaries of the executive directors during the year were therefore as follows:

Executive	Annual salary from 1 January 2019 to 31 December 2019	Annual salary from 1 January 2020 to 31 October 2020
Michael Ord	£430,000	£440,750
Andrew Lewis	£343,119	£351,696
Sarah Ellard	£220,689	£226,206

Michael Ord receives a cash allowance of £20,000 per annum in lieu of a company car and the other executive directors receive a cash allowance of £19,350 per annum. The cash allowances, which are reviewed every three years, were reviewed in December 2019 and were frozen at current levels until the end of 2022.

Details of variable pay opportunity in the year

Annual bonus (audited)

80% of the annual bonus opportunity for 2020 was based on financial targets (namely earnings per share and operating cash flow), with 20% based on personal objectives. No bonus is payable in respect of the personal objectives unless the Committee is satisfied that this is justified by the Group's underlying performance, including inter alia levels of profitability and cash flow, as well as health and safety performance.

The Committee has consistently set challenging targets for the achievement of maximum bonuses. The financial targets for the 2020 bonus plan, compared with actual performance, were as follows:

	Weighting (80% of overall bonus)	Performance	Target	Actual
Underlying diluted earnings per share (continuing operations ¹)	50%	Threshold Target Stretch	12.7p 13.4p 14.7p	14.8p
Underlying operating cash flow (continuing operations ¹)	50%	Threshold Target Stretch	£70.4m £74.1m £81.5m	£82.4m

Note:

1. Excluding the commoditised energetics businesses.

The personal objectives set in respect of the 2020 bonus plan were structured around a common set of strategic objectives which were shared amongst the executive directors, members of the Executive Committee and each of the business unit leaders, focused as appropriate on their respective businesses. Details of the key achievements of the executive directors against the common objectives are set out below:

Strategic objective	Key achievements
Safety - Continued implementation of the Group HSE Management System Framework Standard - Minimising the Group's total recordable injury frequency rate - Reducing the number of process safety events	- Major accident hazard risk scenarios assessment completed Group-wide and assurance process established - Asset integrity review completed and new standard developed - Total recordable injury frequency rate maintained at 0.85 and lost time injury rate reduced from 0.40 to 0.24 - Process safety event rate of 1.44 against a target of 4.6, reflecting a significant reduction in the number of process safety events
Excellence Implementation of a continuous improvement plan to improve competitiveness	All businesses have implemented continuous improvement plans and a number of business unit specific projects were completed during the year
Innovation Establishment of a framework for encouraging, capturing and rewarding innovation to improve competitiveness	All businesses have established innovation plans to deliver improved competitiveness, with areas of innovation spanning products, operations and business systems
Governance and assurance - Continued implementation of the Operational Framework across the Group - Support development of the internal audit programme	- The Operational Framework and associated operational assurance process have been fully embedded in all businesses - The Operational Framework was reissued in March 2020 and will be updated again in January 2021 to establish an annual cadence to capture legislative and regulatory changes, and also changes which will improve business competitiveness - Output from the operational assurance returns is now being used to shape the internal audit programme



Strategic objective	Key achievements
People - Implementation of processes for talent management, succession planning and leadership - Ensuring all employees have a voice in the business to strengthen our values-based culture	- The Group people development framework has been adopted by all of the businesses, providing a more structured approach to leadership training and development - All employees globally now have the opportunity to participate in the Employee Voice programme, and all businesses have initiated employee forums and other information sharing approaches to ensure all employees have the opportunity to hear from senior leaders regularly
Sensors & Information - Delivery of UK and European growth strategy for Roke - Maximisation of value for the US Programs of Record on detection technologies and secure next phase of AVCAD - Development and mobilisation of a growth strategy in the US market	- Year-on-year revenue growth achieved at Roke, with notable successes in electronic warfare and information advantage equipment sales into Europe and new programmes in the UK \$200m of further IDIQ contract cover secured for HMDS and continuing progress on chemical and biological detection programs, including AVCAD - Growth strategy in development focusing on chemical and biological detection and national security, and first electronic warfare sales made in the US
Countermeasures & Energetics - Continued delivery of an integrated global countermeasures organisation - Commission new production facilities in Tennessee	- Further progress made in the alignment and integration of the three countermeasures businesses, with collaboration in the areas of supply chain, sharing of resource and best practice operating methods, product development and technology transfer - Characterisation facility completed and construction work completed on the new extrusion facility in Tennessee; installation of manufacturing equipment underway

In addition to the common strategic objectives, Andrew Lewis and Sarah Ellard were also set additional personal objectives in their respective areas of functional responsibility as follows:

Andrew Lewis - Develop funding strategy - Implement enhanced investor relations programme - Oversight of the ERP system implementation programme - Continued development of the central finance team - Appoint new tax advisors in the US - Manage the EU State Aid contingent liability	Key achievements - Private placement notes repaid in November 2019, interest costs reduced significantly year-on-year and net debt reduced to £48.2m - New ERP system implementation project completed in Australia and planning phase completed in several US businesses - Central finance team strengthened in the UK and the US - BDO appointed as new tax advisors in the US - Dialogue with HMRC on the EU State Aid matter progressed
Sarah Ellard - Development of additional training programmes to support the Operational Framework - Implement further enhancements to the Group's anti-bribery policies and procedures - Implement an integrated online compliance system - Develop proposals for liability management exercises for the legacy UK defined benefit pension scheme - Finalise insurance claim settlements	Key achievements - Additional training programmes developed on the Code of Conduct, anti-bribery, data protection and export control - Ethics & Compliance Committee established - Ongoing refinements to anti-bribery processes implemented - Whistleblowing and investigation protocols refreshed - Chemring Compliance Portal established, including a new gifts and hospitality approval system - Pensioner buy-in options reviewed for the legacy defined benefit pension scheme and project ongoing - Further progress made on insurance claims during the year, with additional payments of £5.2m secured

The Committee assesses performance against the objectives using both qualitative and quantitative evidence. There are no specific weightings given to each objective and the overall assessed percentage is based on the Committee's judgement of performance in aggregate, and may reflect other achievements and factors during the year.



Directors' remuneration report continued

Annual report on remuneration continued

Details of variable pay opportunity in the year continued

Annual bonus (audited) continued

Based on the above performance, bonuses are payable to the executive directors under the 2020 bonus plan as follows (audited):

Executive	Maximum bonus (% of salary)	Bonus paid in respect of financial targets (% of salary)	Bonus paid in respect of personal objectives (% of salary)	Total bonus payment (£) ¹
Michael Ord	125%	100%	22.5%	£539,918
Andrew Lewis	100%	80%	18%	£344,662
Sarah Ellard	100%	80%	18%	£221,681

Note:

1. 40% of bonuses payable are satisfied by way of an award of deferred shares, vesting of which is subject only to continued service.

The Committee reviewed the outcomes in light of broader company and individual performance and was satisfied that no discretion was necessary.

Performance Share Plan (audited)

Vesting of 2018 PSP awards

The PSP awards granted on 19 January 2018 were made subject to the following performance conditions:

Measure	Threshold vesting	Full vesting
Total compound earnings per share growth per annum over three financial years (50% of award)	5% p.a. (25% vests)	10% p.a. (100% vests)
Rank of the Company's total shareholder return against the total shareholder return of the members of the comparator group (50% of award)	Median ranking (25% vests)	Upper quartile ranking (100% vests)

The Group's compound earnings per share growth on continuing operations over the three financial years ended 31 October 2020 was 36.5% p.a. and 100% of the part of the awards subject to the earnings per share measure will therefore vest. The Committee applied discretion to make appropriate adjustments to the underlying earnings per share to reflect the disposal or closure of the commoditised energetics businesses to ensure that performance was measure on a like-for-like basis.

The Company's total shareholder return over the performance period ranked 1.46 against a median of 4 for the comparator group. 100% of the part of the awards subject to the total shareholder return measure will therefore vest.

The awards granted on 19 January 2018 will therefore vest in full on 19 January 2021.

Details of the awards granted to the executive directors on 19 January 2018 are provided below (audited):

Executive	Vesting date	Number of shares at grant	Number of shares to vest	Number of shares to lapse
Andrew Lewis	19 January 2021	265,791	265,791	—
Sarah Ellard	19 January 2021	170,952	170,952	—

Executive	Value of shares to vest ¹	Value of accrued dividends	Total value of awards to vest
Andrew Lewis	£661,820	£27,111	£688,931
Sarah Ellard	£425,670	£17,437	£443,107

Note:

1. Value based on the average closing share price of 249p over the three-month period ended 31 October 2020.

**PSP awards granted in the year**

The following conditional awards of shares were granted to the executive directors under the PSP during the year:

Executive	Date of grant	Value of award	Closing share price on date of grant	Number of conditional shares awarded	Face value	% that vests at threshold	Vesting determined by
Michael Ord	17 December 2019	150% of salary	225.5p	307,142	£692,605	25%	50% EPS growth
Andrew Lewis	17 December 2019	150% of salary	225.5p	245,085	£552,667	25%	and 50% relative
Sarah Ellard	17 December 2019	150% of salary	225.5p	157,635	£355,467	25%	TSR performance, as detailed below

The performance conditions applying to the awards made in December 2019 are based as to one half of each award on the Company's compound earnings per share growth over three financial years commencing 1 November 2019 and as to the other half of each award on the Company's total shareholder return performance over the same three-year period.

The earnings per share performance condition will be measured as follows:

Total compound earnings per share growth over the three-year performance period	% of earnings per share part that may vest
Less than 5% p.a.	0%
5% p.a.	25%
Between 5% p.a. and 10% p.a.	On a straight-line basis between 25% and 100%
10% p.a. or more	100%

Note:

- Earnings per share is calculated on an underlying, fully diluted and normalised basis, as specified by the Committee prior to grant.

The total shareholder return performance condition will be measured as follows:

Rank of the Company's total shareholder return against the total shareholder return of the FTSE All-Share (excluding investment trusts)	% of total shareholder return part that may vest
Below median	0%
Median	25%
Between median and upper quartile	On a straight-line basis between 25% and 100%
Upper quartile or above	100%

Any shares that vest in respect of the December 2019 awards will be subject to a two-year holding period (after allowing for the sale of sufficient shares to meet the tax and national insurance liability arising on vesting).

Pension (audited)

The following table sets out the pension benefits earned by the executive directors during the year. Only Sarah Ellard previously accrued benefits during her former membership of the Chemring Group Staff Pension Scheme.

Executive	Cash in lieu of pension contributions £'000	Total benefit accrued at 31 October 2019		Transfer value of accrued benefit at 31 October 2019 £'000	Total benefit accrued at 31 October 2020		Transfer value of accrued benefit at 31 October 2020 £'000	Increase in transfer value during year (less members' contributions) £'000	Value of benefit for single figure £'000
		Pension £'000 p.a.	Cash £'000		Pension £'000 p.a.	Cash £'000			
Michael Ord	44	—	—	—	—	—	—	—	44
Andrew Lewis	70	—	—	—	—	—	—	—	70
Sarah Ellard	45	24	72	461	24	72	461	—	45

Notes:

- Michael Ord receives a 10% cash supplement in lieu of pension and the other executive directors receive a 20% cash supplement.
- Transfer values represent liabilities of the applicable scheme, and do not represent sums paid to individuals.
- Transfer values have been calculated in accordance with the Occupational Pension Scheme (Transfer Value) Regulations 1996.
- Sarah Ellard left pensionable service on 6 April 2010 and therefore has not accrued additional pension over the year. The accrued benefits shown are the benefits at the date of exit.
- The scheme provided pension at a rate of 1/80th of final pensionable salary plus a cash lump sum of 3/80ths for each year of membership. Final pensionable salary was capped at the HMRC notional earnings cap, and the scheme assumed a normal retirement age of 65. Early retirement is permissible from age 55 but accrued benefits are reduced accordingly using the early retirement factors in force at the date of early retirement.



Directors' remuneration report continued

Annual report on remuneration continued

Payments to past directors (audited)

Michael Flowers stepped down as Group Chief Executive and as a director on 30 June 2018, although remained an employee until 31 October 2018 to provide transition support to Mr Ord as the incoming Group Chief Executive.

In accordance with the agreement reached with Mr Flowers on cessation of his employment, the deferred award over 80,633 shares granted to Mr Flowers in part satisfaction of his annual bonus for the year ended 31 October 2016 vested in full on 19 January 2020. Mr Flowers received £7,096 in respect of the dividends paid on these shares during the deferral period. The deferred award over 65,981 shares granted to Mr Flowers in part satisfaction of his annual bonus for the year ended 31 October 2017 is also expected to vest in full on 18 January 2021. Mr Flowers will receive £6,730 in respect of the dividends paid on these shares during the deferral period.

The PSP award over 363,629 shares granted to Mr Flowers on 24 March 2017 vested at 69.95%, equating to 254,358 shares, on 24 March 2020. Mr Flowers received £22,383 in respect of the dividends paid on these shares during the deferral period.

Full details of the termination arrangements agreed with Mr Flowers are set out in the directors' remuneration report included in the 2018 annual report and accounts.

Remuneration in the wider workforce

In addition to determining the remuneration arrangements for the executive directors, the Committee considers and approves the base salaries for eight senior executives, excluding those based in the US. The Committee also receives information on general pay levels and policies across the Group. The Committee, therefore, has due regard to salary levels across the Group in applying its remuneration policy.

The Group comprises a number of businesses, some of which have been developed through organic growth, others of which have been acquired over time. As a result there are diverse remuneration arrangements in place across the Group. An example of this is pension provision, where contributions range from 4% to 20% of salary depending on location and length of service. Where possible the business aims to consolidate and normalise its remuneration approach, particularly in relation to fixed pay arrangements, taking into account regional and sector-related variations.

In the US, the US Board has established a Compensation Committee to set the remuneration arrangements for the senior leadership of the US businesses, in accordance with the requirements of our Special Security Agreement with the US Government. The US Compensation Committee consults with the Remuneration Committee where appropriate.

The annual bonus plan for the senior leadership is typically operated for around 70 employees across the Group and works in a similar fashion to that for the executive directors, albeit with greater focus on business unit performance where appropriate. Therefore, overall bonus outcomes maintain a level of consistency with Group level performance but allow for differentiated outcomes based on business unit and individual performance.

The PSP typically includes over 30 participants each year, who are considered to have direct influence on the Group-level performance. The performance conditions (and other main terms) are the same as for the executive directors. All UK employees are encouraged to participate in the UK Sharesave Plan.



Additional statutory information on remuneration arrangements

Directors' shareholdings (audited)

Shareholding guidelines apply to executive directors and other participants in the PSP. Executive directors are expected to build up and maintain a shareholding in the Company equivalent to 200% of basic salary, by retaining at least 50% of the after-tax gain on vested PSP awards until such time as the guidelines have been met. Other participants in the PSP are expected to retain a shareholding equivalent to 25% to 50% of their basic salary.

From November 2021, the executive directors will be required to hold shares to the value of the shareholding guideline (i.e. 200% of salary or their existing shareholding if lower at the time) for two years post-cessation of employment. The shareholding will be assessed at the point of stepping down from the Board.

The interests of the directors in the ordinary shares of the Company at 31 October 2020 are shown below. All are beneficial holdings.

Executive	Legally owned (number of shares)	Value of legally owned shares as % of salary ¹	Guideline met	Unvested and subject to performance conditions under the PSP			Total at 31 October 2020	Deferred bonus share awards	Sharesave options
				Jan/June 2018 award	Mar 2019 award	Dec 2019 award			
Michael Ord	50,000	30%	No	394,495	421,568	307,142	1,123,205	100,333	16,853
Andrew Lewis	113,797	84%	No	265,791	336,391	245,085	847,267	105,191	8,910
Sarah Ellard	107,700	124%	No	170,952	216,361	157,635	544,948	66,990	8,910
Carl-Peter Forster	30,000	—	—	—	—	—	—	—	—
Laurie Bowen	15,000	—	—	—	—	—	—	—	—
Andrew Davies	—	—	—	—	—	—	—	—	—
Stephen King	35,500	—	—	—	—	—	—	—	—
Fiona MacAulay	—	—	—	—	—	—	—	—	—

Note:

1. Based on the number of shares legally owned, prevailing base salary and share price of 260.5p at 31 October 2020.

The directors' share interests at 31 October 2020 include shares held by the directors' connected persons, if any, as required by the Regulations. There have been no changes to the directors' interests in shares since 31 October 2020.

Outstanding PSP awards (audited)

Executive	At 1 November 2019	Number of shares under award				At 31 October 2020	Date of vesting	Closing share price on date of grant (p)
		Awarded during the year	Lapsed during the year	Vested during the year ¹				
Michael Ord	394,495	—	—	—	394,495	26 June 2021	218.0	
	421,568	—	—	—	421,568	22 March 2022	139.6	
	—	307,142	—	—	307,142	17 December 2022	225.5	
	816,063	307,142	—	—	1,123,205			
Andrew Lewis	283,430	—	(85,171)	(198,259)	—	24 March 2020	195.7	
	265,791	—	—	—	265,791 ¹	19 January 2021	190.8	
	336,391	—	—	—	336,391	22 March 2022	139.6	
	—	245,085	—	—	245,085	17 December 2022	225.5	
	885,612	245,085	(85,171)	(198,259)	847,267			
Sarah Ellard	182,297	—	(54,781)	(127,516)	—	24 March 2020	195.7	
	170,952	—	—	—	170,952 ¹	19 January 2021	190.8	
	216,361	—	—	—	216,361	22 March 2022	139.6	
	—	157,635	—	—	157,635	17 December 2022	225.5	
	569,610	157,635	(54,781)	(127,516)	544,948			

Note:

1. As explained above, these awards will vest in full on 19 January 2021.



Directors' remuneration report continued

Additional statutory information on remuneration arrangements continued

Outstanding PSP awards (audited) continued

Performance conditions for outstanding awards

	Measure	Director	Executive directors' award values	Threshold vesting	Full vesting
Awards made on 26 June 2018	Total compound earnings per share growth per annum over the three-year period from 1 May 2018 to 30 April 2021 (50% of award)	Michael Ord ¹	200% of salary	5% p.a. (25% vests)	10% p.a. (100% vests)
	Rank of the Company's total shareholder return of the members of the comparator group over the three-year period from 1 May 2018 to 30 April 2021 (50% of award)			Median ranking (25% vests)	Upper quartile ranking (100% vests)
Awards made on 22 March 2019	Total compound earnings per share growth per annum over the three financial years ended 31 October 2021 ² (50% of award)	Michael Ord Andrew Lewis Sarah Ellard	140% of salary	5% p.a. (25% vests)	10% p.a. (100% vests)
	Rank of the Company's total shareholder return of the members of the comparator group over the three-year period from 22 March 2019 to 21 March 2022 (50% of award)			Median ranking (25% vests)	Upper quartile ranking (100% vests)

Note:

1. Michael Ord was granted an award on appointment of 200% of salary. This represents a "normal" award of 150% of salary and an additional 50% of salary which takes into account the value of remuneration he forfeited from his previous employer. Any shares which vest under this award will be subject to a two-year holding period.
2. The Group's results for the year ended 31 October 2018 were below expectations as a consequence of the incident at the UK countermeasures site in August 2018. In order to ensure that the baseline performance against which earnings per share growth would be measured was not inappropriately low, the Committee decided to set an adjusted earnings per share of 11.3p for the year ended 31 October 2018, to reflect the results which would have been achieved by the Group had the incident not occurred.

Outstanding deferred bonus share awards (audited)

Executive	At 1 November 2019	Number of shares under award			At 31 October 2020	Date of vesting	Closing share price on date of grant (p)
		Awarded during the year	Lapsed during the year	Vested during the year			
Michael Ord	—	100,333	—	—	100,333	16 December 2022	210.0
	—	100,333	—	—	100,333		
Andrew Lewis	41,143	—	—	—	41,143	18 January 2021	188.0
	—	64,048	—	—	64,048	16 December 2022	210.0
	41,143	64,048	—	—	105,191		
Sarah Ellard	32,944	—	—	(32,944)	—	19 January 2020	172.0
	25,795	—	—	—	25,795	18 January 2021	188.0
	—	41,195	—	—	41,195	16 December 2022	210.0
	58,739	41,195	—	(32,944)	66,990		

Outstanding Sharesave options (audited)

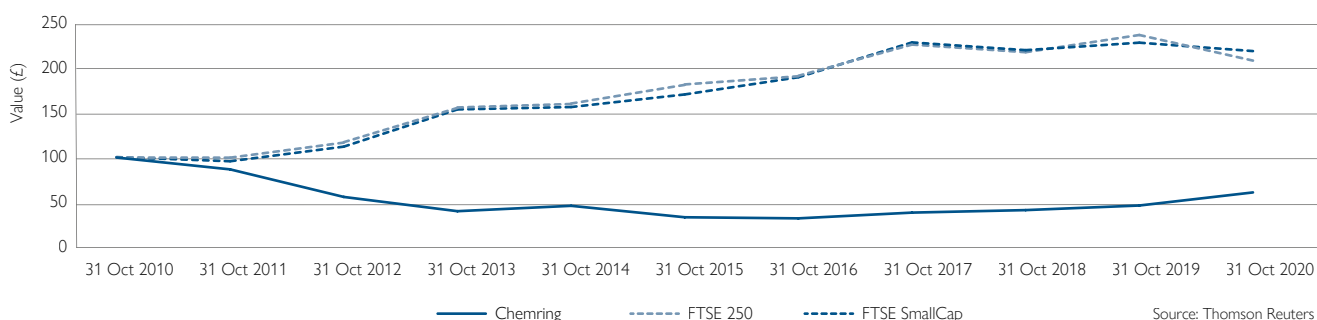
Executive	At 1 November 2019	Number of shares under award			At 31 October 2020	Exercise price	Exercise date
		Awarded during the year	Lapsed during the year	Vested during the year			
Michael Ord	16,853	—	—	—	16,853	178p	1 October 2023–31 March 2024
	16,853	—	—	—	16,853		
Andrew Lewis	12,162	—	—	(12,162)	—	148p	1 October 2020–31 March 2021
	—	8,910	—	—	8,910	202p	1 October 2023–31 March 2024
	12,162	8,910	—	(12,162)	8,910		
Sarah Ellard	7,297	—	—	(7,297)	—	148p	1 October 2020–31 March 2021
	—	8,910	—	—	8,910	202p	1 October 2023–31 March 2024
	7,297	8,910	—	(7,297)	8,190		



Total shareholder return performance graph

The following graph shows the Company's cumulative total shareholder return over the last ten financial years relative to the FTSE 250 and FTSE SmallCap Indexes. The FTSE 250 has been selected by the Committee for this comparison because it provides the most appropriate measure of performance of listed companies of a similar size to the Company. The FTSE SmallCap has been shown in previous years and has been included this year for the purpose of continuity.

The graph shows the value, by 31 October 2020, of £100 invested in Chemring Group PLC on 31 October 2010 compared with the value of £100 invested in the FTSE 250 and FTSE SmallCap. The other points are the values at intervening financial year ends.



Chief Executive's remuneration table

The total remuneration figures for the Group Chief Executive during each of the last ten financial years are shown in the table below. Mark Papworth replaced David Price as Group Chief Executive on 5 November 2012, Michael Flowers replaced Mark Papworth on 24 June 2014 and Michael Ord replaced Michael Flowers on 1 July 2018.

The total remuneration figures for 2012 and 2014 include the payments for loss of office made to David Price and Mark Papworth respectively. The figures for 2018 include a full year's salary and benefits for Michael Flowers.

The total remuneration figure for each year includes the annual bonus based on that year's performance and, where applicable, vested PSP awards based on the three-year performance period ending in the relevant year. The annual bonus payout and PSP award vesting level as a percentage of the maximum opportunity are also shown for each of these years.

	David Price		Mark Papworth	Mark Papworth/ Michael Flowers	Michael Flowers		Michael Flowers/ Michael Ord		Michael Ord	2020
	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Total remuneration £'000	1,239	1,325	785	841	507	855	831	969	1,021	1,045
Annual bonus (% of maximum)	0%	0%	40%	50%	0%	68.3%	59.5%	0%	98%	98%
PSP awards vesting (% of maximum)	100%	54.4%	0%	0%	0%	0%	0%	35%	0%	0%

Percentage change in the executive directors' remuneration

The table below shows the percentage change in the total remuneration (excluding the value of any PSP awards and pension benefits receivable in the year) for each of the executive directors between the 2019 and 2020 financial years, compared to that of the average for all eligible employees of the Group.

	Salary	Benefits	Annual bonus
Group Chief Executive	2.3%	0%	2.5%
Group Finance Director	2.6%	0%	2.7%
Group Legal Director & Company Secretary	2.3%	0%	2.8%
Average of other employees	4.0%	0%	3.0%

Chief Executive's pay ratio

The table overleaf shows how the Group Chief Executive's single remuneration figure for the 2020 financial year compares to equivalent single figure remuneration for full-time equivalent UK employees ranked at the 25th, 50th and 75th percentile.

The Committee considered the calculation approaches as set out in the Regulations and elected to use Method A, as it is considered to be the most appropriate and robust way to calculate the ratio. The calculation was based on:

- actual base salary, benefits, bonus and long-term incentive awards for the year ended 31 October 2020, with salaries for part-time employees annualised on a full-time equivalent basis to allow equal comparisons; and
- employer pension contributions.



Directors' remuneration report continued

Additional statutory information on remuneration arrangements continued

Chief Executive's pay ratio continued

No components of pay and benefits were omitted for the purpose of the calculations; however, joiners and leavers during the year were excluded from the calculations.

Year	Methodology	Total remuneration		
		25th percentile (lower quartile) pay ratio	50th percentile (median) pay ratio	75th percentile (upper quartile) pay ratio
2020	Method A	39.9	25.0	15.8

Year	Salary			Total remuneration		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
2020	£23,378	£39,000	£61,200	£26,184	£41,848	£66,096

The Committee is mindful that pay ratios, however calculated, are a useful reference point but cannot be considered in isolation. Any movement in ratios will be reviewed by the Committee to understand the causes and longer-term trends will be monitored.

Relative importance of spend on pay

The following table shows the Company's actual spend on pay (for all employees) relative to dividends and retained profits:

	2020 £m	2019 £m	% change
Staff costs	144.1	138.1	4%
Dividends	10.4	9.5	9%
Retained profits	28.0	8.5	229%

The dividends figures relate to amounts payable in respect of the relevant financial year.

Advisers to the Remuneration Committee

During the year, FIT Remuneration Consultants LLP ("FIT") were retained by the Remuneration Committee to advise on remuneration and incentive plan related matters. FIT is a signatory to the Remuneration Consultants' Group Code of Conduct. The Committee has reviewed the nature of the services provided by FIT and is satisfied that no conflict of interest exists in the provision of these services. The Company received no other services from FIT during the year. The total fees paid to FIT in respect of services to the Committee during the year were £32,000 (2019: £38,400). Fees were determined based on the scope and nature of the projects undertaken for the Committee.

The Committee reviews the performance and independence of its advisers on an annual basis.

The Committee consults internally with the Group Chief Executive (Michael Ord), the Group Legal Director & Company Secretary (Sarah Ellard) and the Chief People Officer (Clancy Murphy). No executive is involved in discussions on their own pay.

Shareholder voting on the directors' remuneration policy at the 2019 Annual General Meeting

The directors' remuneration policy is subject to a binding vote by shareholders every three years. At the Annual General Meeting held on 21 March 2019, the resolution relating to the directors' remuneration policy received the following votes from shareholders:

For	229,177,007	90.70%
Against	23,500,902	9.30%
Total votes cast (for and against excluding withheld votes)	252,677,909	100.0%
Votes withheld ¹	33,392	0.01%
Total votes cast (including withheld votes)	252,711,301	

Note:

1. A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast "for" and "against" a resolution.

Shareholder voting on the directors' remuneration report at the 2020 Annual General Meeting

The directors' remuneration report is subject to an advisory vote by shareholders every year. At the Annual General Meeting held on 4 March 2020, the resolution relating to the directors' remuneration report received the following votes from shareholders:

For	228,152,712	99.37%
Against	1,435,143	0.63%
Total votes cast (for and against excluding withheld votes)	229,587,855	100.0%
Votes withheld ¹	7,993,104	3.36%
Total votes cast (including withheld votes)	237,580,959	

Note:

1. A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast "for" and "against" a resolution.



Directors' remuneration policy

Key objectives

In developing a policy for the executive directors' remuneration, the Remuneration Committee seeks to:

- maintain a competitive package of rewards required to promote the long-term success of the Company, without being excessive by reference to market rates across comparator companies, and neither encouraging or rewarding inappropriate risk taking;
- ensure performance-related elements:
 - > are transparent, stretching and rigorously applied;
 - > form a significant proportion of the total remuneration package of each executive director; and
 - > align the interests of executives with those of shareholders, by ensuring that a significant proportion of remuneration is performance related and delivered in shares; and
- set remuneration in the context of the core values of the business and with the aim of alignment with culture.

The remuneration policy for the executive directors and other senior executives is also designed with regard to the policy for employees across the Group as a whole. However, there are some differences in the structure of the remuneration policy for executive directors and other senior executives. In general, these differences arise from the development of remuneration arrangements that are market-competitive for the various categories of individuals. They also reflect the fact that, in the case of the executive directors and other senior executives, a greater emphasis tends to be placed on performance-related pay in the market.

Policy summary

The table overleaf provides a summary of the current directors' remuneration policy. The full policy was approved by shareholders at the Annual General Meeting held on 21 March 2019 and can be found in the 2018 directors' remuneration report included in the 2018 report and accounts on our website (<https://www.chemring.co.uk/investors/annual-reports/2018>). The policy remains valid until the 2022 Annual General Meeting.

When developing the current directors' remuneration policy for the executive directors, the Remuneration Committee also addressed the following factors outlined in the 2018 Code:

Factor	How this has been addressed
Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce	• The Chairman of the Remuneration Committee consults with major shareholders on the directors' remuneration policy, which is subject to shareholder approval every three years, and on any significant proposed changes to the policy • The employee engagement initiatives implemented by the Board provide an opportunity for employees to express their views on a wide range of topics, including directors' remuneration arrangements
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand	• The Company operates only two incentive plans for the executive directors – an annual bonus plan to incentivise and reward short-term performance and the PSP, which incentivises long-term performance and aligns management's interests with shareholder interests. The annual bonus plan structure for the executive directors is broadly replicated in the bonus arrangements for the business unit leaders and their direct reports
Risk Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated	• The annual bonus plan includes non-financial personal objectives covering the management of risks in areas such as safety and compliance, as well as requiring bonus deferral • The inclusion of broad malus and clawback provisions in the incentive arrangements and the discretion reserved by the Committee to override formulaic outcomes also mitigate the risk of inappropriate rewards
Predictability The range of possible values of rewards to individual directors and any other limits of discretions should be identified and explained at the time of approving the policy	• The directors' remuneration policy imposes maximum levels for annual bonus payments and PSP awards, and sets out the potential remuneration scenarios for executive directors at differing levels of performance. The Remuneration Committee's discretions are also detailed in the policy
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance	• The annual bonus plan targets and performance conditions associated with PSP awards provide a direct link between individuals' incentive rewards and delivery of strategic objectives which underpin the long-term performance of the Company • The annual bonus plan and the PSP require threshold levels of performance before any payments are made or awards vest, and the Remuneration Committee retains discretion to override formulaic outcomes if deemed appropriate
Alignment to culture Incentive schemes should drive behaviours consistent with company purpose, values and strategy	• The annual bonus plan includes non-financial personal objectives which embrace the Company's values of Safety, Excellence and Innovation, and which are also aligned to the delivery of agreed strategic objectives. The performance conditions under the PSP also incentivise long-term performance through the delivery of strategy and shareholder value

Further details of the policy are set out on pages 96 to 98, and an explanation of how the policy will be applied in 2021 is set out on pages 98 to 100.



Directors' remuneration report continued

Directors' remuneration policy continued

Executive directors

Element	Operation	Maximum
Salary	• Normally reviewed annually with effect from 1 January • Benchmarked periodically against companies with similar characteristics within the same sector • Salaries take account of complexity of the role, market competitiveness, Group performance and the increases awarded to the wider workforce	• Salary increases will normally be in line with those received by the wider workforce • More significant increases may be awarded at the discretion of the Committee, for example where there is a change in responsibilities, to reflect individual development and performance in the role
Bonus	• Paid in cash, with up to 40% deferred as a conditional award of deferred shares • Vesting of deferred shares is subject to continued employment (save in "good leaver" scenarios) at the end of three years from the award of the bonus • The payment of any earned bonus remains ultimately at the discretion of the Committee • Non-pensionable • Executives are entitled to receive, on vesting of deferred share awards, the value of dividend payments that would otherwise have been paid on the deferred shares during the deferral period	• Chief Executive – 125% of salary • Other executive directors – 100% of salary
Long-term incentive plan (performance share plan "PSP")	• Annual grants of shares, which vest subject to the Group's performance measured over at least three years • Any shares vesting must be held by the executives for a further period of two years • Executives are entitled to receive the value of dividend payments that would otherwise have been paid on vested awards • All awards are subject to the discretions given to the Committee in the plan rules during the vesting period	• Normally 150% of base salary (although grants of up to 200% of base salary may be made in exceptional circumstances such as on recruitment)
All employee share scheme	• The UK Sharesave Plan has standard terms	• Participation limits are those set out by HM Revenue & Customs from time to time
Pension¹	• Ongoing pension provision is in the form of a cash supplement, subject to auto-enrolment in the Group's defined contribution scheme • Longer-serving employees have accrued benefits under the Group's defined benefit scheme, which was closed to future accrual for the executive directors on 6 April 2010	• Legacy arrangements: 20% of base salary cash supplement contribution paid in lieu of occupational pension scheme membership • New appointments: 10% of base salary cash supplement contribution paid in lieu of occupational pension scheme membership • All UK employees, including the executive directors, are subject to auto-enrolment into the Group's defined contribution scheme, with an employer contribution of 4% of base salary. If executives do not opt out of this scheme, their cash supplement will be reduced by 4%. For information, pension arrangements across the UK workforce range from 4% to 20% of salary
Other benefits	• Main benefits currently provided to UK executives are a car allowance, life assurance and private medical insurance • Executive directors are eligible for other benefits which may also be introduced	• Cash allowance in lieu of company car of up to £25,000 per annum • Other benefits will be in line with market. The value of each benefit is based on the cost to the Company and is not pre-determined • Any reasonable business-related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit



Chairman and non-executive directors

Element	Operation
Fees	- The Chairman is paid a single fee for all his responsibilities. The non-executive directors are paid a basic fee. The Chairs of the Remuneration Committee and the Audit Committee each receive additional fees to reflect their extra responsibilities - When reviewing fee levels, account is taken of market movements in non-executive director fees, Board Committee responsibilities, ongoing time commitments, the general economic environment and the level of increases awarded to the wider workforce - Fee increases, if applicable, are normally effective from April of each year - In exceptional circumstances, additional fees may be paid where there is a substantial increase in the temporary time commitment required of non-executive directors
Benefits and incentives	Non-executive directors do not participate in any pension, bonus or share incentive plans
Expenses	Non-executive directors may be compensated for travel, accommodation or hospitality-related expenses in connection with their roles and any tax thereon

Note:

- The current remuneration policy provides for a maximum pension contribution of 10% of base salary for new executive director appointments. This provision was enacted on the appointment of Michael Ord in June 2018. The pension level for Andrew Lewis and Sarah Ellard remains unchanged currently reflecting that these were legacy arrangements agreed at the time of their appointment. However, pension contributions for all directors will be aligned with the workforce with effect from 1 November 2022. For information, employer pension contributions across the UK workforce currently range from 4% to 20% of salary.

Committee discretions

The Committee operates the Group's variable incentive plans according to their respective rules and in accordance with governing legislation and HM Revenue & Customs rules where relevant. To ensure the efficient administration of these plans, the Committee will apply certain operational discretions. These include the following:

- selecting the participants in the plans on an annual basis;
- determining the timing of grants of awards and/or payment;
- determining the quantum of awards and/or payments (within the limits set out in the remuneration policy);
- determining the extent of vesting based on the assessment of performance;
- making the appropriate adjustments required in certain circumstances (e.g. change of control, rights issues, corporate restructuring events and special dividends);
- determining "good leaver" status for incentive plan purposes and applying the appropriate treatment; and
- undertaking the annual review of weighting of performance measures, and setting targets for the annual bonus plan and the PSP from year to year.

If an event occurs which results in the annual bonus plan or PSP performance conditions and/or targets being deemed no longer appropriate by the Committee (e.g. a material acquisition or divestment), the Committee will have the ability to adjust appropriately the measures and/or targets and alter weightings, provided that the revised conditions or targets are not materially less difficult to satisfy (taking account of the relevant circumstances).

Executive directors' service contracts

The current executive directors have rolling service contracts, with effective dates as follows:

Executive	Date of contract
Michael Ord	30 April 2018 (effective 1 June 2018)
Andrew Lewis	12 December 2016 (effective 9 January 2017)
Sarah Ellard	2 November 2011 (effective 7 October 2011)

Further details on the executive directors' service contracts and the Company's policy on service contracts are set out within the full directors' remuneration policy included in the 2018 annual report and accounts.

The executive directors' service contracts are available for inspection at the Company's registered office.



Directors' remuneration report continued

Directors' remuneration policy continued

The Chairman's and non-executive directors' letters of appointment

The following table provides details of the terms of appointment for the Chairman and the current non-executive directors:

Name	Date original term commenced	Date current term commenced	Expected expiry date of current term
Carl-Peter Forster	1 May 2016	1 May 2019	30 April 2022
Laurie Bowen	1 August 2019	1 August 2019	31 July 2022
Andrew Davies	17 May 2016	17 May 2019	16 May 2022
Stephen King	1 December 2018	1 December 2018	30 November 2021
Fiona MacAulay	3 June 2020	3 June 2020	2 June 2023

Application of the remuneration policy in 2021

This part of the report sets out how the approved directors' remuneration policy will be implemented in 2021.

Executive directors

Element	Purpose and link to strategy	Implementation
Salary	- Reflects the performance of the individual, their skills and experience over time, and the responsibilities of their role - Provides an appropriate level of basic fixed income, avoiding excessive risk arising from over-reliance on variable income	- The executive directors' salaries were reviewed in November 2020, and the following salary increases were agreed, effective 1 January 2021: > Michael Ord – £483,000 > Andrew Lewis – £369,280 > Sarah Ellard – £258,880 - The general percentage increase of 3% applied to the executive directors' salaries is in line with the average budgeted salary increase for UK employees. - As noted in the Chairman's statement, the Group Chief Executive's salary was increased by an additional 6.6% to recognise his strong leadership and performance in the role since his appointment in July 2018 and his criticality to the business in the next stage of its development. The Committee, whilst cognisant of pay restraint sentiment in the wider economy, believes that now is the right time to make this adjustment to ensure the Group Chief Executive is appropriately remunerated in comparison to peer companies of a similar size and complexity. - Andrew Lewis's salary was increased by an additional 2% to recognise his strong performance in the role and to ensure his overall remuneration package is sufficiently competitive with comparable peers. - Sarah Ellard's base salary reflects her reverting to a full-time equivalent position following a review of her working patterns and the general salary increase set out above.
Benefits	Provides a competitive package of benefits that assists with recruitment and retention	- No changes are proposed to the structure of pension and benefits provision for 2021. - As noted in the Chairman's statement, the pension provision for the executive directors will be aligned with the workforce with effect from November 2022.



Element	Purpose and link to strategy	Implementation
Bonus	• Incentivises annual delivery of financial, strategic and personal goals • Maximum bonus only payable for achieving demanding targets • Delivery of a proportion of bonus in deferred shares plus the ability to receive dividend equivalents provides alignment with shareholders' interests and assists with retention	• The annual bonus plan for 2021 will operate on a similar basis to 2020. The performance measures and weightings for the annual bonus plan will therefore be as follows: > Earnings per share 40% > Operating cash flow 40% > Personal objectives 20% • Personal objectives have been set to reflect performance in the following key areas: > Safety, including continuing implementation of the Group HSE Management System Framework Standard and associated assurance processes, and delivery of further reductions in the Group's total recordable injury frequency ("TRIF") rate and frequency of process safety events > Strengthening of environmental policies and development of related key performance indicators to underpin the Group's ESG strategy > Strengthening of the Group's continuous improvement plans in the areas of manufacturing, planning and supply chain management > Deployment of the Group's information technology roadmap > Ongoing implementation of the Operational Framework and delivery of enhancements to the associated assurance processes > Implementation of the Chemring Compliance Portal > Development of common standards for the protection of people, information and technology > People management, including talent management, succession planning and leadership development, and further promotion of "Employee Voice" > Commission new production facilities in Tennessee > Delivery of growth strategy for Roke and development of Roke USA > Development of a chemical/biological detection growth strategy • The Committee does not believe that it would be in shareholders' interests to prospectively disclose the financial targets under the annual bonus plan due to issues of commercial sensitivity. However, detailed retrospective disclosure of both the financial targets and the personal objectives, and performance against them, will be included in next year's annual report on remuneration. • No bonus will be payable in respect of the personal objectives unless the Committee is satisfied that this is justified by the Group's underlying performance, including <i>inter alia</i> levels of profitability and cash flow. • The 2021 bonus plan is consistent with the remuneration policy detailed on pages 95 to 96, in terms of maximum bonus opportunity, deferred share arrangements and clawback.



Directors' remuneration report continued

Directors' remuneration policy continued

Application of the remuneration policy in 2021 continued

Executive directors

Executive directors	Purpose and link to strategy	Implementation										
Performance Share Plan (“PSP”)	• Incentivises executives to achieve targets aligned to the Group’s main strategic objectives of delivering sustainable growth and shareholder returns • Delivery of awards in shares plus the ability to receive dividend equivalents helps align executives’ rewards with shareholders’ interests	• It is intended that the performance condition for the annual awards granted to the executive directors under the PSP in 2021 will incorporate two equally weighted metrics, namely growth in adjusted EPS and relative TSR measured against the FTSE All-Share (excluding investment trusts) • 25% of each part of the award will vest for threshold or median performance, with full vesting of each part of the award for stretch or upper quartile performance • The EPS performance condition for the 2021 awards will be measured as follows:										
		<table><tr><th>Total compound earnings per share growth over the three-year performance period</th><th>% of earnings per share part that may vest</th></tr><tr><td>Less than 5% p.a.</td><td>0%</td></tr><tr><td>5% p.a.</td><td>25%</td></tr><tr><td>Between 5% p.a. and 10% p.a.</td><td>On a straight line basis between 25% and 100%</td></tr><tr><td>10% p.a. or more</td><td>100%</td></tr></table>	Total compound earnings per share growth over the three-year performance period	% of earnings per share part that may vest	Less than 5% p.a.	0%	5% p.a.	25%	Between 5% p.a. and 10% p.a.	On a straight line basis between 25% and 100%	10% p.a. or more	100%
		Total compound earnings per share growth over the three-year performance period	% of earnings per share part that may vest									
		Less than 5% p.a.	0%									
		5% p.a.	25%									
Between 5% p.a. and 10% p.a.	On a straight line basis between 25% and 100%											
10% p.a. or more	100%											
• The TSR performance condition for the 2021 awards will be measured as follows:												
<table><tr><th>Rank of the Company’s total shareholder return against the total shareholder return of the FTSE All-Share (excluding investment trusts)</th><th>% of total shareholder return part that may vest</th></tr><tr><td>Below median</td><td>0%</td></tr><tr><td>Median</td><td>25%</td></tr><tr><td>Between median and upper quartile</td><td>On a straight line basis between 25% and 100%</td></tr><tr><td>Upper quartile or above</td><td>100%</td></tr></table>	Rank of the Company’s total shareholder return against the total shareholder return of the FTSE All-Share (excluding investment trusts)	% of total shareholder return part that may vest	Below median	0%	Median	25%	Between median and upper quartile	On a straight line basis between 25% and 100%	Upper quartile or above	100%		
Rank of the Company’s total shareholder return against the total shareholder return of the FTSE All-Share (excluding investment trusts)	% of total shareholder return part that may vest											
Below median	0%											
Median	25%											
Between median and upper quartile	On a straight line basis between 25% and 100%											
Upper quartile or above	100%											
• The EPS target range is considered stretching when viewed against internal forecasts and a broader reflection of prevailing macroeconomic factors.												

Fees for the Chairman and non-executive directors

As detailed in the directors' remuneration policy, the Company's approach to setting the non-executive directors' remuneration takes account of recognised practice, and is set at a level that is sufficient to attract and retain high-calibre non-executives. The fees for the non-executive directors are determined by the executive directors and the Chairman, and the Remuneration Committee determines the fees for the Chairman. From 1 January 2021 (and onwards), it was agreed to introduce a separate fee for the positions of Senior Independent Director and for the employee engagement lead, to recognise the additional responsibilities and time commitment associated with the roles. No other changes will be made to the fees payable to the Chairman and the non-executive directors in 2021.

Details of the fees that will apply for 2021 are set out below:

	Fee as at 1 January 2021	Percentage increase
Chairman's fee	£200,000	0%
Other non-executive directors' base fee	£55,000	0%
Audit Committee Chair fee	£10,000	0%
Remuneration Committee Chair fee	£10,000	0%
Senior Independent Director fee	£10,000	—
Non-executive directors' fee for employee engagement	£5,000	—

Approval of the directors' remuneration report

The directors' remuneration report was approved by the Board on 15 December 2020.

Signed on behalf of the Board

Laurie Bowen

Chairman of the Remuneration Committee
15 December 2020



Directors' report

The directors present their annual report, together with the audited financial statements of the Group and the Company, for the year ended 31 October 2020.

The following sections of the annual report are incorporated into the directors' report by reference:

- strategic report on pages 1 to 62;
- corporate governance report on pages 66 to 75;
- Audit Committee report on pages 76 to 79;
- directors' remuneration report on pages 82 to 100; and
- notes to the Group financial statements as detailed in this section.

Business review

The strategic report on pages 1 to 62 provides a review of the Group's business development, performance and position during and at the end of the financial year, its strategy and likely future developments, key performance indicators, and a description of the principal risks and uncertainties facing the business. Further information regarding financial risk management policies and financial instruments is given in note 21 to the Group financial statements.

There have been no significant events since the balance sheet date.

Results and dividends

The profit attributable to the Group's shareholders for the year was £34.7m (2019: £21.9m).

The directors are recommending the payment of a final dividend of 2.6p per ordinary share which, together with the interim dividend of 1.3p per share paid in September 2020, gives a total for the year of 3.9p (2019: 3.6p). The final dividend is subject to approval by shareholders at the Annual General Meeting on 4 March 2021 and has not therefore been included as a liability in these financial statements.

Directors and their interests

The current directors are shown on pages 64 and 65.

Nigel Young retired as a non-executive director on 30 April 2020.
Fiona Macaulay was appointed as a non-executive director on 3 June 2020.

In accordance with the Company's Articles of Association, all directors are required to submit themselves for election or re-election at every Annual General Meeting. All directors will therefore be seeking election or re-election at the Annual General Meeting on 4 March 2021. Ordinary resolutions are required to be passed for the re-election of directors, which means that more than half of the votes cast must be in favour of the resolution.

Details of the service contracts entered into between the Company and the executive directors are set out in the directors' remuneration report on page 97. The non-executive directors do not have service contracts with the Company.

The Company maintains directors' and officers' liability insurance in respect of legal action against its directors and officers. The Company has also granted indemnities to its directors to the extent provided by law (which are qualifying third party indemnities within the meaning of section 236 of the Companies Act 2006). Neither the insurance nor the indemnities provide cover in the event of proven fraudulent or dishonest activity.

Other than in relation to their service contracts, none of the directors is or was beneficially interested in any significant contract to which the Group was a party during the year ended 31 October 2020.

Information required in relation to directors' shareholdings is set out in the directors' remuneration report on page 91.

Employees and employee consultation

Details of the Group's employment policies and employee consultation practices are set out on pages 55 to 57.

Political donations

No political donations were made during the year (2019: £nil).

Contractual arrangements

The Group contracts with a wide range of customers, comprising governments, armed forces, prime contractors and OEMs across the globe. The US Department of Defense is the largest single customer, and procures the Group's products under a significant number of separate contracts placed with individual Group businesses.

The Group's businesses utilise many suppliers across the world, and arrangements are in place to ensure that businesses are not totally reliant on single suppliers for key raw materials or components.

Research and development

The Group's research and development expenditure for the year is detailed in the financial review on page 34.

Change of control

Individual Group businesses have contractual arrangements with third parties, entered into in the normal course of business, which may be amended or may terminate on a change of control of the relevant business, or in certain circumstances, following a takeover of the Group.

The most significant agreements entered into by the Group which contain provisions granting the counterparties certain rights in the event of a change of control of the Company are the revolving credit facility agreements entered into with the Group's banks. These agreements provide that, in the event of a change of a control, the Company must repay all outstanding borrowings, together with accrued interest and other sums owing under each agreement.

Share capital and shareholder rights

General

The Company's share capital consists of ordinary shares of 1p each and preference shares of £1 each, which are fully paid up and quoted on the main market of the London Stock Exchange. Full details of the movements in the issued share capital of the Company during the financial year are provided in note 25 to the Group financial statements.

Details of the rights attaching to shares are set out in the Articles of Association (the "Articles"). All holders of ordinary shares are entitled to attend, speak and vote at any general meeting of the Company, and to appoint a proxy or proxies to exercise these rights. At a general meeting, every shareholder present in person, by proxy or (in the case of a corporate member) by corporate representative has one vote on a show of hands, and on a poll has one vote for every share held. The Notice of Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in respect of the resolutions to be passed at the Annual General Meeting.

A member or members representing at least 5% of the ordinary share capital of the Company may require the directors to convene a general meeting. A member or members representing at least 5% of the ordinary share capital of the Company or at least 100 members with the right to vote at an Annual General Meeting and each holding, on average, at least £100 of paid-up share capital may request a resolution to be put before an Annual General Meeting.

There are no restrictions on the transfer of ordinary shares in the capital of the Company, other than certain restrictions which may from time to time be imposed by law. In accordance with the Market Abuse Regulation, certain employees are required to seek the approval of the Company to deal in its shares.



Share capital and shareholder rights continued

General continued

The cumulative preference shares carry an entitlement to a dividend at the rate of 7p per share per annum, payable in equal instalments on 30 April and 31 October each year. Holders of the preference shares have the right on a winding-up to receive, in priority to any other classes of shares, the sum of £1 per share together with any arrears of dividends.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

The Company's Articles may only be amended by special resolution at a general meeting of shareholders.

Issue of shares

Under the provisions of section 551 of the Companies Act 2006 (the "Act"), the Board is prevented from exercising its powers under the Articles to allot shares without an authority contained either in the Articles or in a resolution of the shareholders passed in general meeting. The authority, when given, can last for a maximum period of five years, but the Board proposes that renewal should be sought at each Annual General Meeting. An ordinary resolution, seeking such authority, will be proposed at the forthcoming Annual General Meeting.

Section 561 of the Act requires that an allotment of shares for cash may not be made unless the shares are first offered to existing shareholders on a pre-emptive basis in accordance with the terms of the Act.

In accordance with general practice, to ensure that small issues of shares can be made without the necessity of convening a general meeting, the Board proposes that advantage be taken of the provisions of section 571 of the Act not to apply the Act's pre-emptive requirements. Accordingly, a special resolution will be proposed at the forthcoming Annual General Meeting which, if passed, will have the effect of granting the directors the power to allot not more than 5% of the issued ordinary share capital at the date of the Annual General Meeting free of the requirements of section 561 of the Act. No issue of these shares will be made which would effectively alter the control of the Company without the prior approval of the shareholders in general meeting.

Purchase of own shares

The Company did not purchase any of its ordinary shares (2019: nil) during the year. At 31 October 2020, the Company held a total of 675,592 1p ordinary shares in treasury (representing 0.24% of the ordinary shares in issue on 31 October 2020).

A special resolution will be proposed at the forthcoming Annual General Meeting to renew the Company's authority to purchase its own shares in the market up to a limit of 10% of its issued ordinary share capital. The maximum and minimum prices will be stated in the resolution at the date of the Annual General Meeting. The directors believe that it is advantageous for the Company to have this flexibility to make market purchases of its own shares. The directors of the Company may consider holding repurchased shares pursuant to the authority conferred by this resolution as treasury shares. This will give the Company the ability to reissue treasury shares quickly and cost effectively, and will provide the Company with additional flexibility in the management of its capital base. Any issues of treasury shares for the purposes of the Company's employee share schemes will be made within the 10% anti-dilution limit set by The Investment Association. The directors will only exercise this authority if they are satisfied that a purchase would result in an increase in expected earnings per share and would be in the interests of shareholders generally.

Substantial shareholdings

At 14 December 2020, the following substantial holdings in the ordinary share capital of the Company had been notified to the Company in accordance with Chapter 5 of the Disclosure and Transparency Rules of the Financial Conduct Authority. It should be noted that these holdings may have changed since the Company was notified; however, notification of any change is not required until the next notifiable threshold is crossed.

Name	% interest
Jupiter Fund Management PLC	8.4
Invesco Limited	8.1
Royal London Asset Management Limited	5.2
Old Mutual Asset Managers	5.1
Ameriprise Financial, Inc. and its Group	5.0
Norges Bank	5.0
J O Hambro Capital Management Limited	5.0
AXA Investment Managers S.A.	5.0
Schroders Plc	BELOW 5.0
BlackRock, Inc.	BELOW 5.0
FIL Limited	BELOW 5.0
Aviva PLC & its subsidiaries	4.9
Majedie Asset Management Limited	4.9
J P Morgan Chase & Co	4.9
Neptune Investment Management Limited	4.8
Prudential Plc	4.8
Investec Asset Management Limited	4.8
Standard Life Investments Limited	4.6
BT Pension Scheme Trustees Limited as Trustee of the BT Pension Scheme	3.8

Employee share schemes and plans

Approach to share ownership

The Group actively encourages its employees to share in the future success of the Group, and therefore operates share-based arrangements to provide incentives and rewards to employees.

The Group operated four share-based incentive plans during the year, as set out below. Further details of awards and vesting are provided in note 28 to the Group financial statements.

The Chemring Group 2008 and 2018 UK Sharesave Plans (collectively the "UK Sharesave Plan")

The UK Sharesave Plan is open to all eligible UK employees. Employees may choose between three and five-year savings periods, at the end of which the employee can choose to exercise the option or seek the return of their savings. A grant of options was made on 30 July 2020.

The Chemring Group Performance Share Plan (the "PSP")

The PSP is the primary long-term incentive plan for executive directors and senior employees. Discretionary awards are granted under the PSP over a fixed number of shares by reference to salary, with awards ordinarily vesting, subject to meeting performance criteria, on the third anniversary of the grant date. Awards were granted under the plan on 17 December 2019.

The Chemring Group Restricted Share Plan (the "RSP")

The RSP provides for the discretionary grant of deferred share awards to selected key employees. Executive directors are not eligible to participate. Awards typically vest on the second or third anniversary of the grant date, subject to meeting continuous service criteria. Awards under the RSP may only be satisfied with market-purchased shares.



Going concern

Details of the conclusions arrived at by the directors in preparing the financial statements on a going concern basis are set out in the viability statement on page 45.

Additional information, as required by Listing Rules Requirement 9.8.4

The annual report is required to contain certain information under Listing Rules Requirement 9.8.4. Where this information has not been cross-referenced within the Group financial statements, it can be found in the following sections:

- capitalised interest (see note 7);
- long-term incentive schemes (see directors' remuneration report);
- allocation of equity securities for cash (see note 25);
- contracts of significance (see directors' report);
- election of independent directors (see corporate governance report);
- contractual arrangements (see directors' report);
- details of independent directors (see corporate governance report); and
- substantial shareholders (see directors' report).

No profit forecasts are issued by the Group and no directors have waived any current or future emoluments. Other than in relation to ordinary shares held in treasury, no shareholders have waived or agreed to waive dividends.

None of the shareholders is considered to be a Controlling Shareholder (as defined in Listing Rule 6.1.2.A) and the Group complies with the independence provisions of the Listing Rules.

Provision of information to the auditor

Each director at the date of this report confirms that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

Resolutions will be proposed at the forthcoming Annual General Meeting to reappoint KPMG and to authorise the directors to determine the external auditor's remuneration.

Annual General Meeting

The resolutions to be proposed at the Annual General Meeting to be held on 4 March 2021, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders.

Statement of directors' responsibilities in respect of the annual report and accounts

The directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs as adopted by the EU") and applicable law, and have elected to prepare the parent company financial statements in accordance with UK accounting standards including FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance report that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report and directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The directors' report and responsibility statement was approved by the Board of directors on 15 December 2020 and is signed on its behalf by:

Michael Ord

Group Chief Executive
15 December 2020

Sarah Ellard

Group Legal Director
15 December 2020



Consolidated income statement

For the year ended 31 October 2020

		2020			2019		
	Note	Underlying performance £m	Non-underlying items ¹ £m	Total £m	Underlying performance £m	Non-underlying items ¹ £m	Total £m
Continuing operations							
Revenue	1,2	402.5	—	402.5	335.2	—	335.2
Operating profit	2,4	54.7	(8.4)	46.3	44.0	(12.7)	31.3
Finance expense	7	(3.0)	—	(3.0)	(4.6)	—	(4.6)
Profit before tax		51.7	(8.4)	43.3	39.4	(12.7)	26.7
Taxation	8	(9.1)	0.5	(8.6)	(7.9)	4.3	(3.6)
Profit after tax		42.6	(7.9)	34.7	31.5	(8.4)	23.1
Discontinued operations							
(Loss)/profit after tax from discontinued operations	5	(0.1)	0.1	—	2.7	(3.9)	(1.2)
Profit after tax		42.5	(7.8)	34.7	34.2	(12.3)	21.9

		2020		2019	
Earnings per ordinary share	Note	Underlying performance	Total	Underlying performance	Total
Continuing operations					
Basic	10	15.1p	12.3p	11.2p	8.2p
Diluted	10	14.8p	12.0p	11.0p	8.1p
Continuing and discontinued operations					
Basic	10	15.1p	12.3p	12.2p	7.8p
Diluted	10	14.7p	12.0p	12.0p	7.7p

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



Consolidated statement of comprehensive income

For the year ended 31 October 2020

	Note	2020 £m	2019 £m
Profit after tax attributable to equity holders of the parent as reported		34.7	21.9
Items that will not be reclassified subsequently to profit and loss			
Actuarial (losses)/gains on defined benefit pension schemes	30	(1.9)	1.6
Movement on deferred tax relating to pension schemes	24	0.7	(0.7)
		(1.2)	0.9
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		(0.2)	(5.2)
Exchange difference reclassified to income statement on disposal of foreign operation		(1.4)	—
Tax on exchange differences on translation of foreign operations	24	0.5	0.2
		(1.1)	(5.0)
Total comprehensive income attributable to equity holders of the parent		32.4	17.8



Consolidated statement of changes in equity

For the year ended 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 loss	—	—	—	—	0.5	0.7	—	1.2
Total comprehensive (loss)/income	—	—	—	—	(1.1)	33.5	—	32.4
Ordinary shares issued	—	0.5	—	—	—	—	—	0.5
Share-based payments (net of settlement)	—	—	—	—	—	3.6	—	3.6
Dividends 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	—
At 31 October 2020	2.8	306.7	12.9	1.0	(18.9)	28.0	(2.9)	329.6
	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2018	2.8	305.4	12.9	1.0	(27.2)	7.1	(7.8)	294.2
Profit after tax	—	—	—	—	—	21.9	—	21.9
Other comprehensive income/(loss)	—	—	—	—	1.4	(5.0)	—	(3.6)
Tax relating to components of other comprehensive income	—	—	—	—	—	(0.5)	—	(0.5)
Total comprehensive income	—	—	—	—	1.4	16.4	—	17.8
Ordinary shares issued	—	0.8	—	—	—	—	—	0.8
Share-based payments (net of settlement)	—	—	—	—	—	2.5	—	2.5
Dividends paid	—	—	—	—	—	(9.5)	—	(9.5)
Transfers between reserves ¹	—	—	—	—	8.0	(8.0)	—	—
At 31 October 2019	2.8	306.2	12.9	1.0	(17.8)	8.5	(7.8)	305.8

1. Transfer to reclassify exchange differences on translation of foreign subsidiaries included in retained earnings to the translation reserve.



Consolidated balance sheet

As at 31 October 2020

		2020		2019	
	Note	£m	£m	£m	£m
Non-current assets					
Goodwill	11	108.5		108.5	
Development costs	12	29.8		26.1	
Other intangible assets	12	16.6		25.3	
Property, plant and equipment	13	194.0		170.0	
Retirement benefit surplus	30	7.6		9.6	
Deferred tax	24	15.7		18.5	
			372.2		358.0
Current assets					
Inventories	15	91.3		78.1	
Trade and other receivables	16	62.8		53.7	
Cash and cash equivalents	17	14.7		1.3	
Derivative financial instruments	22	0.4		0.2	
			169.2		133.3
Assets classified as held for sale	29		—		7.0
Total assets			541.4		498.3
Current liabilities					
Borrowings	18	—		(69.2)	
Lease liabilities	19	(1.5)		—	
Trade and other payables	20	(97.2)		(68.3)	
Provisions	23	(3.3)		(4.8)	
Current tax		(9.1)		(4.0)	
Derivative financial instruments	22	(0.7)		(0.9)	
			(111.8)		(147.2)
Liabilities directly associated with assets classified as held for sale	29		—		(1.8)
Non-current liabilities					
Borrowings	18,33	(57.5)		(7.7)	
Lease liabilities	19	(3.8)		—	
Provisions	23	(15.7)		(12.4)	
Deferred tax	24	(22.9)		(23.0)	
Preference shares	18,25	(0.1)		(0.1)	
Derivative financial instruments	22	—		(0.3)	
			(100.0)		(43.5)
Total liabilities			(211.8)		(192.5)
Net assets			329.6		305.8
Equity					
Share capital	25	2.8		2.8	
Share premium account	26	306.7		306.2	
Special capital reserve	26	12.9		12.9	
Revaluation reserve	26	1.0		1.0	
Translation reserve		(18.9)		(17.8)	
Retained earnings		28.0		8.5	
		332.5		313.6	
Own shares	27	(2.9)		(7.8)	
Total equity			329.6		305.8

These financial statements of Chemring Group PLC (registered number 86662) were approved and authorised for issue by the Board of directors on 15 December 2020.

Signed on behalf of the Board

Michael Ord
Director

Andrew Lewis
Director



Consolidated cash flow statement

For the year ended 31 October 2020

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Cash generated from continuing underlying operations	31	82.4	63.9
Cash impact of continuing non-underlying items		(3.6)	(5.3)
Cash (utilised in)/generated from discontinued underlying operations		(2.6)	13.7
Cash impact of discontinued non-underlying items		(1.3)	(7.1)
Cash flows from operating activities		74.9	65.2
Retirement benefit deficit recovery contributions		—	(0.4)
Tax received/(paid)		1.0	(2.9)
Net cash inflow from operating activities		75.9	61.9
Cash flows from investing activities			
Purchases of intangible assets		(5.2)	(3.8)
Purchases of property, plant and equipment		(35.6)	(41.0)
Customer funding for capital programmes		0.9	2.4
Proceeds on disposal of subsidiary		14.5	0.7
Net cash outflow from investing activities		(25.4)	(41.7)
Cash flows from financing activities			
Dividends paid	9	(10.4)	(9.5)
Purchase of own shares		(2.4)	—
Proceeds from issue of shares		0.5	—
Finance expense paid		(3.0)	(4.9)
Capitalised facility fees paid		—	(0.3)
Drawdown of borrowings		108.0	—
Repayments of borrowings		(123.1)	(18.1)
Payment of lease liabilities		(1.7)	—
Net cash outflow from financing activities		(32.1)	(32.8)
Increase/(decrease) in cash and cash equivalents	32	18.4	(12.6)
Cash and cash equivalents at beginning of year		(3.3)	9.6
Effect of foreign exchange rate changes		(0.4)	(0.3)
Cash and cash equivalents at end of year (including bank overdraft)	17,33	14.7	(3.3)



Notes to the Group financial statements

1. Revenue

All of the Group's revenue is derived from the sale of goods and the provision of services. The following table provides an analysis of the Group's revenue by destination:

	Sensors & Information £m	Countermeasures & Energetics £m	2020 £m
UK	69.5	48.9	118.4
US	61.0	156.3	217.3
Europe	1.7	39.3	41.0
Asia Pacific	1.1	14.0	15.1
Rest of the world	3.9	6.8	10.7
	137.2	265.3	402.5

	Sensors & Information £m	Countermeasures & Energetics £m	2019 £m
UK	60.8	30.2	91.0
US	57.5	125.5	183.0
Europe	4.0	26.6	30.6
Asia Pacific	5.0	19.7	24.7
Rest of the world	4.6	1.3	5.9
	131.9	203.3	335.2

The directors consider that the only countries that are significant in accordance with IFRS 8 *Operating Segments* are the US and the UK.

The following table discloses the split of the Group's revenue between goods and services:

	Sensors & Information £m	Countermeasures & Energetics £m	2020 £m
Goods	52.0	263.4	315.4
Services	85.2	1.9	87.1
	137.2	265.3	402.5

	Sensors & Information £m	Countermeasures & Energetics £m	2019 £m
Goods	49.0	202.2	251.2
Services	82.9	1.1	84.0
	131.9	203.3	335.2

All revenues recognised arose from contracts with customers.

As at 31 October 2020 £476.0m (2019: £448.7m) of revenue was outstanding in respect of obligations that were unfulfilled or only partially fulfilled as at the year end. £326.0m (2019: £287.0m) of this revenue is expected to be recognised in the next financial year and £150.0m (2019: £161.7m) in future periods.

2. Business segments

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group Chief Executive and the Board to allocate resources to the segments and to assess their performance. For management purposes, the Group's operating and reporting structure clusters similar businesses together, based on the products and services they offer. These segments are the basis on which the Group reports its segmental information.

The principal activities of each segment are as follows:

Sensors & Information	Development and manufacture of explosive hazard detection ("EHD") equipment, chemical and biological threat detection equipment, electronic countermeasures and network protection technologies.
Countermeasures & Energetics	Development and manufacture of expendable countermeasures for air and sea platforms, cartridge/propellant actuated devices, pyrotechnic devices for satellite launch and deployment, missile components, propellants, separation sub-systems, actuators and energetic materials.



2. Business segments *continued*

A segmental analysis of revenue and operating profit is set out below:

Year ended 31 October 2020	Sensors & Information £m	Countermeasures & Energetics £m	Unallocated £m	Total £m
Revenue	137.2	265.3	—	402.5
Segment result before depreciation, amortisation, non-underlying items and discontinued operations	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 (note 3)	(6.4)	(2.5)	—	(8.9)
Non-underlying items (note 3)	—	—	0.5	0.5
Impact of non-underlying items on profit before tax (note 3)	(6.4)	(2.5)	0.5	(8.4)
Segmental operating profit	21.0	37.4	(12.1)	46.3
Finance expense			(3.0)	(3.0)
Profit before tax			(15.1)	43.3
Tax			(8.6)	(8.6)
Profit for the year from continuing operations			(23.7)	34.7
Discontinued operations			—	—
Profit for the year			(23.7)	34.7

Year ended 31 October 2019	Sensors & Information £m	Countermeasures & Energetics £m	Unallocated £m	Total £m
Revenue	131.9	203.3	—	335.2
Segment result before depreciation, amortisation, non-underlying items and discontinued operations	29.3	41.7	(9.8)	61.2
Depreciation	(2.3)	(13.5)	—	(15.8)
Amortisation	(0.7)	(0.7)	—	(1.4)
Segmental underlying operating profit	26.3	27.5	(9.8)	44.0
Amortisation of acquired intangibles (note 3)	(6.6)	(5.5)	—	(12.1)
Non-underlying items (note 3)	—	—	(0.6)	(0.6)
Impact of non-underlying items on profit before tax (note 3)	(6.6)	(5.5)	(0.6)	(12.7)
Segmental operating profit	19.7	22.0	(10.4)	31.3
Finance expense			(4.6)	(4.6)
Profit before tax			(15.0)	26.7
Tax			(3.6)	(3.6)
Profit for the year from continuing operations			(18.6)	23.1
Discontinued operations			(1.2)	(1.2)
Profit for the year			(19.8)	21.9

Assets and liabilities by segment are not reported to the Group Chief Executive on a monthly basis; therefore they are not used as a key decision making tool and are not disclosed here. A disclosure of non-current assets by location is shown below:

Non-current assets by location	2020 £m	2019 £m
UK	148.5	158.0
US	193.9	169.3
Norway	8.8	9.1
Australia	21.0	21.6
	372.2	358.0

Information on major customers

Included in segmental revenues for continuing operations are revenues of £154.2m (2019: £137.9m), which arose from sales to the Group's largest customer, the US Department of Defense. The largest customer had sales reported in both of the Group's business segments. This was the only individual customer where direct sales accounted for more than 10% of Group revenue from continuing and discontinued operations for the year.



Notes to the Group financial statements continued

3. Alternative Performance Measures

In accordance with our accounting policy we have presented the following reconciliation of Alternative Performance Measures used throughout this report to their IFRS equivalent measures as follows:

	2020 £m	2019 £m
Non-underlying items and non-underlying measures		
Gain/(loss) on the movement in the fair value of derivative financial instruments (note 22)	0.5	(0.6)
Impact of non-underlying items on EBITDA	0.5	(0.6)
Amortisation of acquired intangibles arising from business combinations (note 12)	(8.9)	(12.1)
Impact of non-underlying items on profit before tax	(8.4)	(12.7)
Tax impact of non-underlying items	0.5	4.3
Impact of non-underlying items on continuing profit after tax	(7.9)	(8.4)
Non-underlying discontinued operations after tax	0.1	(3.9)
Impact of non-underlying items on profit after tax	(7.8)	(12.3)
Underlying profit after tax	42.5	34.2
Statutory profit after tax	34.7	21.9

The impact of non-underlying items on statutory basic and diluted EPS, as well as a reconciliation to the IFRS equivalent, is presented in note 10.
The impact of non-underlying items on cash generated from operating activities, as well as a reconciliation to the IFRS equivalent, is presented in note 31.

Amortisation of acquired intangibles

Included in non-underlying items is the amortisation charge arising from business combinations of £8.9m (2019: £12.1m). Amortisation of acquired intangibles arising from business combinations is associated with acquisition accounting 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.

Derivative financial instruments

Included in non-underlying items is a £0.5m gain (2019: £0.6m loss) on the movement in fair value of derivative financial instruments. This is excluded from underlying earnings to ensure the recognition of the gain or loss on the derivative matches the timing of the underlying transaction.

Tax

The tax impact of continuing non-underlying items comprises a £0.5m tax credit (2019: £4.3m credit) on the above non-underlying items.

Discontinued operations

Further details on the results of discontinued operations are presented in note 5.

Net debt

An analysis and reconciliation of net debt is presented in notes 32 and 33.

EBITDA

In our financial review we present measures of continuing EBITDA which is calculated as follows:

	2020 £m	2019 £m
Operating profit	46.3	31.3
Amortisation arising from business combinations (note 4)	8.9	12.1
Amortisation of development costs (note 4)	1.4	1.3
Amortisation of patents and licences (note 4)	—	0.1
Depreciation of property, plant and equipment— continuing operations	18.5	15.8
EBITDA	75.1	60.6
Non-underlying items	(0.5)	0.6
Underlying EBITDA	74.6	61.2

Constant currency revenue and operating profit

In our financial review we present a measure of constant currency revenue and operating profit. This is calculated by translating our results for the year ended 31 October 2020 at the average exchange rates for the comparative year ended 31 October 2019.



4. Operating profit

Operating profit from continuing operations is stated after charging/(crediting):

		2020 £m	2019 £m
Research and development costs	– customer-funded	52.5	47.2
	– internally-funded	4.5	5.0
Amortisation	– arising from business combinations	8.9	12.1
	– development costs	1.4	1.3
	– patents and licences	—	0.1
Depreciation of property, plant and equipment	– owned assets	16.9	14.9
	– leased assets	1.6	0.9
Loss on disposal of non-current assets		0.3	0.7
Operating leases (pre-IFRS 16)	– plant and machinery	—	0.6
	– other	—	0.4
Government grants		—	(0.5)
Foreign exchange losses		1.5	0.2
Staff costs (note 6)		139.4	127.0
Cost of inventories recognised as an expense		134.7	91.2

Operating lease expense is no longer applicable under IFRS 16 *Leases*, which was adopted by the Group from 1 November 2019. Amounts recognised in the income statement in respect of leases for 2020 are disclosed in note 19.

A detailed analysis of the auditor's remuneration on a worldwide basis is set out below:

	2020 £m	2019 £m
Auditor's remuneration		
Fees payable to the Company's auditor and its associates for:		
– the audit of the Company's annual accounts	0.2	0.2
– the audit of the Company's subsidiaries, pursuant to legislation	0.6	0.4
	0.8	0.6
Other services		
Audit-related assurance services	0.1	0.1
	0.9	0.7

Included in the fees for the audit of the Company's annual accounts is £0.1m (2019: £0.1m) in respect of the parent company.

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 76 to 79, and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor. No services were provided by the auditor pursuant to contingent fee arrangements.

5. Results from discontinued operations

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

	2020 £m	2019 £m
Revenue	9.5	43.4
Underlying operating loss from discontinued operations	(0.1)	(3.5)
Tax on the underlying operating loss from discontinued operations	—	6.2
Underlying (loss)/profit after tax	(0.1)	2.7
(Loss)/profit after tax is analysed as:		
Before exceptional items	(0.1)	2.7
Exceptional items	0.1	(3.8)
Tax on exceptional items	—	(0.1)
	0.1	(3.9)
Loss for the year from discontinued operations	—	(1.2)



Notes to the Group financial statements continued

5. Results from discontinued operations continued

In the year ended 31 October 2020, the loss related to the continued trading activity of Chemring Ordnance, Inc. On 7 May 2020 the Group sold its US subsidiary Chemring Ordnance, Inc. to Nammo Defense Systems Inc., concluding the Group's exit from its commoditised energetics businesses. The consideration of \$17m was paid in cash on completion, subject to normal working capital and other closing adjustments.

In 2020 the exceptional items include a gain on disposal of £3.5m relating to the sale of Chemring Ordnance, Inc., an increase to the disposal provision in respect of the disposal of the European Munitions businesses in 2014 of £1.3m and a £2.1m increase to the disposal provisions relating to the exit of the commoditised energetics businesses announced in 2018.

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

Details of the sale of the subsidiaries

The Group completed the sale of the entire issued stock capital of Chemring Ordnance, Inc. to Nammo Defense Systems, Inc. on 7 May 2020. Under the terms of the agreement, the Group received \$17m upon completion of the transaction.

The Group completed the sale of the entire issued stock capital of Chemring Military Products, Inc. to Global Ordnance LLC on 5 April 2019. Under the terms of the agreement, the Group received £1.7m upon completion of the transaction. Deferred consideration of £0.7m was received on the first anniversary of the transaction. A further deferred consideration amount of £0.4m is payable on the second anniversary of the transaction. The Group is entitled to further contingent consideration following the sale of up to £0.8m if certain performance-related and event-driven milestones are achieved by Chemring Military Products, Inc. No value has been assigned to this consideration based on the probability assessment of the associated milestones being reached.

The Group completed the sale of the entire issued share capital of Chemring Defence UK Limited to PWD Group Limited on 24 June 2019. Under the terms of the agreement, the Group received £0.0m upon completion of the transaction. Contingent consideration is payable if certain performance-related and event-driven milestones are achieved by Chemring Defence UK Limited. No value has been assigned to this consideration based on the probability assessment of the associated milestones being reached.

	2020 £m	2020 £m	2019 £m	2019 £m	2019 £m
	Chemring Ordnance, Inc.	Total	Chemring Military Products, Inc.	Chemring Defence UK Limited	Total
Consideration received or receivable:					
– cash	13.8	13.8	1.7	—	1.7
– fair value of deferred consideration	—	—	1.1	—	1.1
Total disposal consideration	13.8	13.8	2.8	—	2.8
Net working capital adjustment	(0.8)	(0.8)	—	—	—
Net assets and liabilities disposed of	(9.3)	(9.3)	(3.6)	(0.4)	(4.0)
Disposal costs	(1.6)	(1.6)	(1.1)	(0.5)	(1.6)
Profit/(loss) on disposal before tax	2.1	2.1	(1.9)	(0.9)	(2.8)
Reclassification of foreign currency translation reserve	1.4	1.4	—	—	—
Income tax on profit/(loss) on disposal	—	—	—	—	—
Profit/(loss) on disposal after tax	3.5	3.5	(1.9)	(0.9)	(2.8)

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

	7 May 2020 £m	2020 £m	5 April 2019 £m	24 June 2019 £m	2019 £m
	Chemring Ordnance, Inc.	Total	Chemring Military Products, Inc.	Chemring Defence UK Limited	Total
Trade and other receivables	10.5	10.5	14.3	3.6	17.9
Total assets	10.5	10.5	14.3	3.6	17.9
Trade and other payables	(0.4)	(0.4)	(10.7)	(3.2)	(13.9)
Total liabilities	(0.4)	(0.4)	(10.7)	(3.2)	(13.9)
Net assets	10.1	10.1	3.6	0.4	4.0

The cash flow from discontinued operations is disclosed in note 31.



6. Staff costs

The average monthly number of employees, including executive directors, was:

	2020 Number	2019 Number
Direct	1,381	1,324
Indirect	899	988
Continuing operations	2,280	2,312
Discontinued operations	104	262
	2,384	2,574

The costs incurred in respect of employees at continuing operations, including share-based payments, were:

	2020 £m	2019 £m
Wages and salaries	116.9	106.8
Social security costs	12.4	12.5
Other pension costs	6.1	5.2
Share-based payment charge	4.0	2.5
Staff costs	139.4	127.0

7. Finance expense

	2020 £m	2019 £m
Bank overdraft and loan interest	3.3	1.2
Loan notes interest	—	3.7
Amortisation of debt finance costs	0.2	0.2
Interest cost/(credit) on retirement benefit obligations (note 30)	0.1	(0.2)
Right-of-use asset interest	0.2	—
	3.8	4.9
Amount capitalised	(0.8)	(0.3)
Finance expense	3.0	4.6

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's general borrowings during the year, in this case 3%. During the year £0.8m (2019: £0.3m) of interest was capitalised in relation to the Tennessee capacity expansion programme.

There are future contractual cash flows for finance expenses as at 31 October 2020 of £1.8m (2019: £1.8m) which is all due within one year (2019: £1.8m).



Notes to the Group financial statements continued

8. Taxation

	2020 £m	2019 £m
Current tax charge – current year	5.8	3.1
Current tax (credit)/charge – prior year	(1.1)	6.8
Deferred tax charge – current year (note 24)	3.0	0.3
Deferred tax charge/(credit) – prior year (note 24)	0.9	(6.6)
Tax charge for continuing operations	8.6	3.6

Income tax in the UK is calculated at 19.0% (2019: 19.0%) of the taxable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in those jurisdictions.

The tax charge for continuing operations can be reconciled to the income statement as follows:

	2020 £m	2019 £m
Profit before tax from continuing operations	43.3	26.7
Tax at the UK corporation tax rate of 19.0% (2019: 19.0%)	8.2	5.1
Expenses not deductible/income not taxable for tax purposes	(0.9)	(1.5)
Changes in tax rates	(0.4)	—
Tax losses not recognised/carried forward	—	(2.3)
Prior period adjustments	(0.2)	0.2
Adjustment to provision for interest restriction	—	1.6
Overseas profits taxed at rates different to the UK standard rate	1.9	0.5
Tax charge for continuing operations	8.6	3.6

In addition to the tax charge in the income statement, a tax credit of £1.2m (2019: £0.5m charge) has been recognised in equity in the year.

The effective rate of tax on the profit before tax of the Group is 19.9% (2019: 13.5%), and the effective rate of tax on the underlying profit before tax of the Group is 17.6% (2019: 20.1%). The effective rate of tax on the underlying profit before tax is lower than the 2019 effective tax rate due to prior year tax adjustments and the geographical mix of profits.

Factors affecting the tax charge in future years

The Group's future tax charge and effective tax rate could be affected by several factors including: tax reform in countries around the world, including any arising from the implementation of the OECD's BEPS actions and European Commission initiatives such as the proposed tax and financial reporting directive or as a consequence of state aid investigations, future corporate acquisitions and disposals and any restructuring of our business.

9. Dividends

	2020 £m	2019 £m
Dividends paid on ordinary shares of 1p each		
Final dividend of 2.4p per share for the year ended 31 October 2019 (2.2p per share for the year ended 31 October 2018)	6.8	6.2
Interim dividend of 1.3p per share for the year ended 31 October 2020 (1.2p per share for the year ended 31 October 2019)	3.6	3.3
Total dividends	10.4	9.5

Subject to approval at the Annual General Meeting, the final dividend of 2.6p per ordinary share will be paid on 23 April 2021 to all shareholders registered at the close of business on 6 April 2021. The total dividend for the year will therefore be 3.9p (2019: 3.6p) per ordinary share. As the final dividend is subject to approval by the shareholders at the Annual General Meeting, it has not been included as a liability in the financial statements for the year ended 31 October 2020.

The cumulative preference shares carry an entitlement to a dividend at the rate of 7p per share per annum which was paid in equal instalments on 30 April 2020 and 31 October 2020.



10. Earnings per ordinary share

Earnings per share is based on the average number of shares in issue, excluding own shares held, of 281,447,284 (2019: 280,061,053).

Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 288,416,915 (2019: 286,092,818).

The number of shares used in the calculations is as follows:

	2020 Ordinary shares Number millions	2019 Ordinary shares Number millions
Weighted average number of shares used to calculate basic earnings per share	281.4	280.1
Additional shares issuable other than at fair value in respect of options outstanding	7.0	6.0
Weighted average number of shares used to calculate diluted earnings per share	288.4	286.1

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

	2020			2019		
	£m	Basic EPS (pence)	Diluted EPS (pence)	£m	Basic EPS (pence)	Diluted EPS (pence)
Underlying profit after tax	42.6	15.1	14.8	31.5	11.2	11.0
Non-underlying items (note 3)	(7.9)	—	—	(8.4)	—	—
Profit from continuing operations	34.7	12.3	12.0	23.1	8.2	8.1
Loss from discontinued operations	—	—	—	(1.2)	(0.4)	(0.4)
Total profit after tax	34.7	12.3	12.0	21.9	7.8	7.7

11. Goodwill

	£m
Cost	
At 1 November 2018	200.8
Disposals	(3.0)
Foreign exchange adjustments	(1.6)
At 31 October 2019	196.2
Disposals	(8.9)
Foreign exchange adjustments	0.5
At 31 October 2020	187.8
Accumulated impairment losses	
At 1 November 2018	(91.6)
Disposals	3.0
Foreign exchange adjustments	0.9
At 31 October 2019	(87.7)
Disposals	8.9
Foreign exchange adjustments	(0.5)
At 31 October 2020	(79.3)
Carrying amount	
At 31 October 2020	108.5
At 31 October 2019	108.5

Goodwill acquired in a business combination is allocated at acquisition to the cash-generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of the goodwill has been allocated to the Group's principal CGUs, being the individual operating companies within the operating segment descriptions on pages 28 to 31.

The Group tests goodwill at least annually for impairment. Tests are conducted more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions for the value-in-use calculations have been individually estimated for each CGU and include the discount rates and expected changes to cash flows during the period for which management has detailed plans, which are underpinned by the winning and execution of key contracts.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to each of the CGUs. Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital of 6.2% (2019: 7.3%) which have been adjusted for a premium specific to each of the CGUs to account for differences in currency risk, country risk and other factors affecting specific CGUs, have been used to discount projected cash flows. These premiums range from 1% to 3% (2019: 1% to 3%).



Notes to the Group financial statements continued

11. Goodwill continued

Expected changes to cash flows during the period for which management has detailed plans relate to revenue forecasts, expected contract outcomes and forecast operating margins in each of the operating companies based on our Board-approved five year plan which considered past experience and our understanding of customer budgets and priorities. The relative value ascribed to each varies between CGUs as the budgets are built up from the underlying operating companies within each CGU.

At the end of five years, the calculations assume the performance of the CGUs will grow at a nominal annual rate of 1.5% in perpetuity. Growth rates are based on management's view of industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes.

The weighted average cost of capital is derived using beta values of a comparator group of defence companies adjusted for funding structures as appropriate.

The pre-tax discount rates used for value-in-use calculations and the carrying value of goodwill by the principal CGUs are:

	2020 %	2019 %	2020 £m	2019 £m
Roke Manor Research Limited	9.0	10.0	28.4	28.4
Chemring Energetics UK Limited	7.0	8.0	14.6	14.6
Chemring Sensors & Electronic Systems, Inc.	7.4	8.8	36.4	36.3
Chemring Energetic Devices, Inc.	9.4	10.8	16.1	16.1
Other			13.0	13.1
			108.5	108.5

The pre-tax discount rates used for other CGUs ranged from 6.9% to 9.0% (2019: 8.0% to 10.0%).

Following a detailed review, no impairment losses were recognised in the years ended 31 October 2020 and 31 October 2019 for continuing operations.

Stress testing was performed on the forecasts to consider the impact of reasonably possible worst case scenarios in the first two years, including significant delays to major contracts, followed by a 10% fall in the forecast cash flows. Even under these circumstances, no CGUs would require an impairment against goodwill.

There are no reasonably possible changes in assumptions that would require an impairment against goodwill.

12. Development costs and other intangible assets

	Development costs £m	Acquired technology £m	Acquired customer relationships £m	Patents and licences £m	Total £m
Cost					
At 1 November 2018	62.7	95.9	79.8	0.4	176.1
Additions	4.0	—	—	—	—
Disposals	(14.3)	—	—	—	—
Foreign exchange adjustments	(0.4)	(1.1)	(0.8)	—	(1.9)
At 31 October 2019	52.0	94.8	79.0	0.4	174.2
Additions	5.0	—	—	0.2	0.2
Disposals	(1.2)	(1.1)	(31.8)	—	(32.9)
Foreign exchange adjustments	0.1	0.1	1.4	—	1.5
At 31 October 2020	55.9	93.8	48.6	0.6	143.0
Amortisation					
At 1 November 2018	(38.7)	(75.3)	(63.0)	(0.2)	(138.5)
Charge	(1.3)	(8.3)	(3.8)	(0.1)	(12.2)
Disposals	14.0	—	—	—	—
Foreign exchange adjustments	0.1	1.1	0.7	—	1.8
At 31 October 2019	(25.9)	(82.5)	(66.1)	(0.3)	(148.9)
Charge	(1.4)	(5.3)	(3.6)	—	(8.9)
Disposals	1.2	1.1	31.8	—	32.9
Foreign exchange adjustments	—	(0.1)	(1.4)	—	(1.5)
At 31 October 2020	(26.1)	(86.8)	(39.3)	(0.3)	(126.4)
Carrying amount					
At 31 October 2020	29.8	7.0	9.3	0.3	16.6
At 31 October 2019	26.1	12.3	12.9	0.1	25.3



12. Development costs and other intangible assets *continued*

Included within the development costs of £29.8m, individually material balances relate to Joint Biological Tactical Detection System £8.6m (2019: £8.6m), Next Generation Chemical Detector £12.5m (2019: £11.1m) and Perceive £4.0m (2019: £2.5m). Development costs are amortised over their useful economic lives, estimated to be between three and ten years, with the remaining amortisation periods for these assets ranging up to ten years.

Acquired intangibles are recognised at fair value on acquisition and are amortised over their estimated useful lives. Fair values for acquired intangibles are assessed by reference to future estimated cash flows, discounted at an appropriate rate to present value, or by reference to the amount that would have been paid in an arm's length transaction between two knowledgeable and willing parties. Other intangible assets are recognised at cost and are amortised over their estimated useful economic lives, which are set out in the accounting policies section.

Acquired technology of £7.0m includes individually material balances relating to Chemring Sensors & Electronic Systems £4.2m (2019: £8.3m), Chemring Energetic Devices £1.7m (2019: £2.1m) and Roke £1.0m (2019: £1.5m). The remaining amortisation periods for these assets are three years, seven years and two years respectively.

Acquired customer relationships of £9.3m include individually material balances relating to Chemring Energetic Devices £7.2m (2019: £8.8m), Chemring Sensors & Electronic Systems £1.9m (2019: £2.7m) and Roke £nil (2019: £1.0m). The remaining amortisation periods for these assets are six years and three years respectively.

13. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Right-of-use land and buildings £m	Right-of-use plant and equipment £m	Total £m
Cost or valuation					
At 1 November 2018	124.9	137.8	—	—	262.7
Additions	13.6	27.1	—	—	40.7
Disposals	(8.4)	(34.7)	—	—	(43.1)
Foreign exchange adjustments	(1.8)	(2.7)	—	—	(4.5)
At 31 October 2019	128.3	127.5	—	—	255.8
Recognition of right-of-use asset on initial application of IFRS 16	—	—	5.9	0.4	6.3
Reclassification	(2.4)	2.4	—	—	—
Additions	14.9	21.7	0.1	0.2	36.9
Disposals	(14.8)	(9.2)	(0.4)	—	(24.4)
Foreign exchange adjustments	0.6	—	0.1	—	0.7
At 31 October 2020	126.6	142.4	5.7	0.6	275.3
Depreciation					
At 1 November 2018	(35.6)	(79.0)	—	—	(114.6)
Charge	(3.3)	(12.5)	—	—	(15.8)
Disposals	8.3	34.2	—	—	42.5
Foreign exchange adjustments	0.5	1.6	—	—	2.1
At 31 October 2019	(30.1)	(55.7)	—	—	(85.8)
Charge	(3.4)	(13.5)	(1.5)	(0.1)	(18.5)
Disposals	14.8	9.0	0.1	—	23.9
Foreign exchange adjustments	(0.6)	(0.3)	—	—	(0.9)
At 31 October 2020	(19.3)	(60.5)	(1.4)	(0.1)	(81.3)
Carrying amount					
At 31 October 2020	107.3	81.9	4.3	0.5	194.0
At 31 October 2019	98.2	71.8	—	—	170.0

During the year, £0.8m (2019: £0.3m) of interest was capitalised, as set out in note 7. £1.1m (2019: £1.1m) of capitalised interest was charged as depreciation and £0.1m (2019: £nil) was disposed of. This results in a net book value for capitalised interest of £9.6m (2019: £10.0m).

Included within land and buildings and plant and equipment are assets under construction of £21.7m and £15.5m respectively (2019: £8.6m and £6.2m). These assets are not depreciated.

Land and buildings were revalued at 30 September 1997 by Chestertons Chartered Surveyors, independent valuers not connected with the Group, on the basis of depreciated replacement cost for two pyrotechnic sites and on open market for the remainder, which represent Level 2 measurements in the fair value hierarchy.

	2020 £m	2019 £m
30 September 1997 depreciated replacement cost	5.8	5.8
Freehold at cost	120.8	122.5
Cost of land and buildings as at 31 October 2020	126.6	128.3



Notes to the Group financial statements continued

13. Property, plant and equipment continued

If stated under historical cost principles, the comparable amounts for the total of land and buildings would be:

	2020 £m	2019 £m
Cost	124.7	126.3
Accumulated depreciation	(18.4)	(29.2)
Historical cost value	106.3	97.1

All other tangible fixed assets are stated at historical cost.

At 31 October 2020, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £16.9m (2019: £20.7m).

14. Subsidiary undertakings

All subsidiary undertakings have been reflected in these financial statements. The subsidiary undertakings held at 31 October 2020, which have a single class of ordinary shares all 100% owned by the Group, are shown below. All of these subsidiary undertakings are wholly controlled by Chemring Group PLC.

	Country of incorporation (or registration) and operation	Operating segment
Subsidiary undertaking		
Chemring Australia Pty Limited	Australia	Countermeasures & Energetics
B.D.L. Systems Limited	England	Dormant
Chemring Countermeasures Limited*	England	Countermeasures & Energetics
Chemring Energetics Limited*	England	Holding company
Chemring Europe Limited*	England	Dormant
Chemring Finance Europe Limited	England	Non-trading
Chemring Investments Limited	England	Non-trading
Chemring Limited*	England	Non-trading
Chemring North America Unlimited	England	Holding company
Chemring Prime Contracts Limited*	England	Non-trading
Chemring Technology Solutions Limited	England	Sensors & Information
CHG Overseas Investments Limited*	England	Non-trading
CHG Overseas Limited*	England	Holding company
Chemring UAE Limited	England	Non-trading
Greys Exports Limited	England	Dormant
Kembrey Engineering Limited	England	Dormant
Kembrey Limited*	England	Non-trading
Parkway No 10 Limited	England	Non-trading
Richmond EEI Limited	England	Dormant
Richmond Electronics & Engineering Limited	England	Dormant
Roke Manor Research Limited*	England	Sensors & Information
Chemring Nobel AS	Norway	Countermeasures & Energetics
Chemring Energetics UK Limited*	Scotland	Countermeasures & Energetics
Alloy Surfaces Company, Inc.	US	Countermeasures & Energetics
ASC Realty LLC	US	Property holding company
Chemring Energetic Devices, Inc.	US	Countermeasures & Energetics
Chemring North America Group, Inc.	US	Holding company
CHG Flares, Inc.	US	Holding company
CHG Group, Inc.	US	Holding company
Kilgore Flares Company LLC	US	Countermeasures & Energetics
Chemring Sensors & Electronic Systems, Inc.	US	Sensors & Information
Roke USA, Inc.	US	Sensors & Information
Tactical Systems and Ordnance, Inc.	US	Non-trading

* Share directly held by Chemring Group PLC.

CHG Overseas Limited, Chemring North America Unlimited, Parkway No 10 Limited, Chemring Investments Limited, Chemring Energetics Limited, Chemring Europe Limited, Chemring Finance Europe Limited, Chemring Limited, Kembrey Limited, Kembrey Engineering Limited, Chemring UAE Limited and CHG Overseas Investments Limited are exempt from the requirement to file audited accounts for the year ended 31 October 2020 by virtue of section 479A of the Companies Act 2006. See page 156 for the registered offices of the subsidiary undertakings.



15. Inventories

	2020 £m	2019 £m
Raw materials	50.3	38.8
Work in progress	25.2	25.1
Finished goods	15.8	14.2
	91.3	78.1

There are no significant differences between the replacement cost of inventory and the carrying amount shown above. The Group recognised £5.5m (2019: £2.7m) as a write down of inventories to net realisable value for continuing operations. See note 4 for details of cost of inventories recognised as an expense.

16. Trade and other receivables

	2020 £m	2019 £m
Trade receivables	46.4	30.6
Allowance for doubtful debts	(0.5)	(0.3)
	45.9	30.3
Advance payments to suppliers	0.2	4.4
Other receivables	3.2	7.0
Prepayments	4.0	3.7
Accrued income	9.5	8.3
	62.8	53.7

All amounts shown above are due within one year.

The average credit period taken by customers on sales of goods, calculated using a countback basis, is 30 days (2019: 20 days). No interest is charged on receivables from the date of invoice to payment.

Given the Group's customer base, expected credit losses are typically not material; however, the Group's policy is to provide in full for trade receivables outstanding for more than 120 days beyond agreed terms, unless there are facts and circumstances that support recoverability. As at 31 October 2020, £1.5m of gross trade receivables were aged greater than 30 days past due (2019: £0.6m).

The directors consider that the carrying amount of trade and other receivables approximates to their fair values.

Of the £8.3m of accrued income at 31 October 2019, £8.3m had been billed and paid in the year. Of the £9.5m of accrued income at 31 October 2020, over half was billed in the month after the reporting date. The remainder relates to the completion of performance obligations which will be billed at the next contractual milestone which is expected within the next year.

17. Cash and cash equivalents

Bank balances and cash comprise cash held by the Group and short-term deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value. For the purposes of the statement of cash flows, cash and cash equivalents comprises cash at banks of £14.7m (2019: £1.3m) less the bank overdraft included in short-term borrowings of £nil (2019: £4.6m).

18. Borrowings

	2020 £m	2019 £m
Within current liabilities		
Loan notes – US dollar denominated	—	64.6
Bank overdrafts – US dollar denominated	—	4.6
Borrowings due within one year	—	69.2
Within non-current liabilities		
Bank borrowings	57.5	7.7
Preference shares	0.1	0.1
Borrowings due after more than one year	57.6	7.8
Total borrowings	57.6	77.0

Analysis of borrowings by currency:

	2020 £m	2019 £m
Sterling	0.1	7.8
US dollar	57.5	69.2
	57.6	77.0



Notes to the Group financial statements continued

18. Borrowings continued

The weighted average interest rates paid were as follows:

		2020 %	2019 %
Bank overdrafts		1.5	2.1
UK bank loans	– Sterling denominated	1.5	2.1
	– US dollar denominated	3.3	—
Loan notes	– US dollar denominated	—	5.7

An analysis of borrowings by maturity is as follows:

	2020				2019			
	Bank loans and overdrafts £m	Loan notes £m	Preference shares £m	Total £m	Bank loans and overdrafts £m	Loan notes £m	Preference shares £m	Total £m
Borrowings falling due:								
– within one year	—	—	—	—	4.6	64.6	—	69.2
Borrowings falling due:								
– within one to two years	57.5	—	—	57.5	—	—	—	—
– within two to five years	—	—	—	—	7.7	—	—	7.7
– after five years	—	—	0.1	0.1	—	—	0.1	0.1
	57.5	—	0.1	57.6	7.7	—	0.1	7.8
Total borrowings	57.5	—	0.1	57.6	12.3	64.6	0.1	77.0

The Group has a multi-currency revolving credit facility of £145m. The revolving credit facility was first established in October 2018 and has a four-year initial term with options to extend by a further two years. None of the borrowings in the current or the prior year were secured.

There have been no breaches of the terms of the loan agreements during the current or prior year.

The Group has the following undrawn borrowing facilities available, in respect of which all conditions precedent have been met. Interest costs under these facilities are charged at floating rates.

	2020 £m	2019 £m
Undrawn borrowing facilities	86.4	130.2

The Group is subject to two key financial covenants, which are tested quarterly. These covenants relate to the leverage ratio, being the ratio between underlying earnings before interest, tax, depreciation and amortisation ("underlying EBITDA") and 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 complied with these covenants throughout the year.

19. Leases

The carrying amount, additions and depreciation charge for right-of-use assets by class of underlying asset is included in note 13.

The expense relating to short-term and low-value leases in the year was £0.9m. In total, payments of £1.7m were made under leasing contracts, of which £1.5m was made to repay the principal portion of the lease.

A maturity analysis of the future undiscounted lease payments in respect of the Group's lease liabilities is presented in the table below:

	2020 £m
Lease liabilities falling due:	
– within one year	1.5
Lease liabilities falling due:	
– within one to two years	1.7
– within two to five years	2.1
– after five years	—
	3.8
Lease liabilities included in balance sheet as at 31 October 2020	5.3



20. Trade and other payables

	2020 £m	2019 £m
Within current liabilities		
Trade payables	19.9	6.7
Other payables	25.4	24.1
Interest payable	1.8	1.6
Other tax and social security	3.7	2.8
Advance receipts from customers	22.8	15.3
Accruals	17.1	12.3
Deferred income	6.5	5.5
	97.2	68.3

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

Advance receipts from customers represent the obligation to transfer goods or services to a customer for which consideration has been received. The amount of £15.3m included in advance receipts from customers recognised at 31 October 2019 has been recognised as revenue in 2020 (2019: £5.7m). Of the £22.8m of advanced receipts from customers at 31 October 2020, £22.8m is relevant to goods and services that will be delivered and provided within a year. No revenue was recognised in 2020 from performance obligations satisfied in previous years.

The average credit period taken on purchases of goods is 26 days (2019: 16 days) using year-end trade payables divided by cost of sales. No interest is payable on trade payables from the date of invoice to payment.

21. Financial risk management

The Group uses financial instruments to manage financial risk wherever it is appropriate to do so. The main risks addressed by financial instruments are liquidity risk, foreign currency risk, interest rate risk and credit risk. The Group's policies in respect of the management of these risks, which remained unchanged throughout the year, are set out below.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The impairment provisions for financial assets disclosed in note 16 "Trade and other receivables" are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history and existing market conditions, as well as forward-looking estimates at the end of each reporting period. Customers are mainly multinational organisations or government agencies which the Group has long-term business relationships. The Group's principal customers are government defence departments, such as the US Department of Defense and the UK Ministry of Defence, US and UK defence prime contractors, such as BAE Systems and General Dynamics, and distributors of products for their onward sale to end users.

The majority of continuing revenue in 2020 related to the US DoD, the UK MOD and the US and UK defence prime contractors, which consistently pay within terms and are deemed low credit risk as a result. For all other customers the Group's policy is to trade under a letter of credit. If there is any doubt over recoverability, the Group's policy is to provide in full for trade receivables outstanding for more than 120 days beyond agreed terms. The balances which might be affected by credit risk are trade receivables and cash and cash equivalents.

(b) Capital management

The Group manages its capital to ensure that all entities in the Group will be able to continue as a going concern while meeting the returns to stakeholders. The capital structure of the Group consists of equity (as disclosed in the consolidated statement of changes in equity), retained earnings, cash and cash equivalents (note 17) and a revolving credit facility ("RCF") (note 18). The Group seeks to manage its capital through an appropriate mix of these items.

On 19 November 2019, the final tranche of 5.68% private placement loan notes of \$83.6m was repaid. This was funded from the Group's £145m multi-currency RCF. The RCF is with a syndicate of five banks and was first established in October 2018 and has a four-year initial term with options to extend by a further two years. As at 31 October 2020, the RCF was drawn by £58.0m.

(c) Financial risk management

The primary risks that the Group is exposed to are liquidity risk, foreign currency risk, interest rate risk and credit risk. It is the Group's policy to manage these risks under the following policies:

i. Liquidity risk management

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due. The Group manages liquidity risk by maintaining adequate reserves and by continually monitoring forecast and actual cash flows. The Group's policy is to maintain continuity of funding through available cash and cash equivalents and the RCF.

ii. Foreign currency risk management

The Group's presentational currency is sterling. The Group is subject to exposure on the translation of the assets of foreign subsidiaries, whose functional currencies differ from the Group. The Group's primary balance sheet translation exposures are to the US dollar, Australian dollar and Norwegian krone. The Group minimises the balance sheet translation exposures, where it is practical to do so, by funding subsidiaries with long-term loans, on which exchange differences are taken to reserves. US dollar borrowings held by the Group are treated as a net investment hedge against the US dollar assets of the Group.



Notes to the Group financial statements continued

21. Financial risk management continued

(c) Financial risk management continued

ii. Foreign currency risk management continued

The Group faces currency exposures arising from the translation of profits earned in foreign currency. These exposures are not hedged. Exposures also arise from foreign currency denominated trading transactions undertaken by subsidiaries deemed transactional exposures. The Group's policy is to hedge transactional exposures above £250,000 in the banking market on a one-to-one basis using forward contracts. Below £250,000, the exposures are netted across subsidiaries and any surplus or deficit hedged in the banking market using spot or forward contracts. The Group's policy is that there is no speculative trading in financial instruments. During the year ended 31 October 2020, there were no options or structured derivatives utilised.

iii. Interest rate risk management

The Group finances its operations through a combination of retained profits and bank borrowings. The UK borrowings are denominated in sterling and US dollars, and at the shorter end are subject to floating rates of interest.

IFRS 9 Financial Instruments

Chemring Group PLC is not a financial institution and does not have any complex financial instruments. The Group does not apply hedge accounting and the Group's customers are generally governments that are considered creditworthy and pay consistently within agreed payment terms.

	2020		2019	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Assets carried at amortised cost				
Trade receivables	45.9	45.9	30.3	30.3
Accrued income	9.5	9.5	8.3	8.3
Other receivables	3.2	3.2	7.0	7.0
Cash and cash equivalents	14.7	14.7	1.3	1.3
Assets carried at fair value				
Derivative financial instruments	0.4	0.4	0.2	0.2
Assets classified as held for sale	—	—	7.0	7.0
Liabilities carried at fair value				
Derivative financial instruments	(0.7)	(0.7)	(1.2)	(1.2)
Liabilities classified as held for sale	—	—	(1.8)	(1.8)
Liabilities carried at amortised cost				
Trade payables	(19.9)	(19.9)	(6.7)	(6.7)
Other payables	(25.4)	(25.4)	(24.1)	(24.1)
Interest payable	(1.8)	(1.8)	(1.6)	(1.6)
Accruals	(17.1)	(17.1)	(12.3)	(12.3)
Lease liabilities	(5.3)	(5.3)	—	—
Borrowings	(57.6)	(57.6)	(77.0)	(77.0)

The following items are not financial instruments as defined by IFRS 9:

- (a) prepayments made/advances received (right to receive future goods or services, not cash or a financial asset);
- (b) tax receivables and payables and similar items (statutory rights and obligations, not contractual); or
- (c) deferred revenue and warranty obligations (obligations to deliver goods and services, not cash or financial assets).

22. Financial instruments

The following table details the fair value of derivative financial instrument assets/(liabilities) recognised in the balance sheet:

	2020 £m	2019 £m
Included in current assets	0.4	0.2
Included in current liabilities	(0.7)	(0.9)
Included in non-current liabilities	—	(0.3)
Forward foreign exchange contracts	(0.3)	(1.0)



22. Financial instruments continued

There was a £0.5m gain (2019: £0.6m loss) on the movement in the fair value of derivative financial instruments recognised in the income statement.

The table below details the maturity profile of the nominal value of the Group's derivative financial instruments and loans:

	2020			2019		
	Derivative instruments £m	Loans and overdrafts £m	Total £m	Derivative instruments £m	Loans and overdrafts £m	Total £m
Falling due:						
– within one year	0.3	—	0.3	0.7	69.2	69.9
– within one to two years	—	57.5	57.5	0.3	—	0.3
– within two to five years	—	0.1	0.1	—	7.8	7.8
	0.3	57.6	57.9	1.0	77.0	78.0

A maturity analysis of the contracted cash outflows on lease liabilities is provided in note 19.

Fair value hierarchy

IFRS 7 *Financial Instruments: Disclosures* requires companies that carry financial instruments at fair value in the balance sheet to disclose their level of visibility, determining into which category those financial instruments fall under the fair value hierarchy.

The fair value measurement hierarchy is as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (i.e. as unobservable inputs).

The following tables present the Group's assets and liabilities that are measured at fair value:

		2020		2019	
	Fair value hierarchy	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Held at fair value					
Derivative financial instruments – assets	Level 2	0.4	0.4	0.2	0.2
Assets classified as held for sale	Level 3	—	—	7.0	7.0
Derivative financial instruments – liabilities	Level 2	(0.7)	(0.7)	(1.2)	(1.2)
Liabilities classified as held for sale	Level 3	—	—	(1.8)	(1.8)
		(0.3)	(0.3)	4.2	4.2

The assets and liabilities under Level 3 on the fair value hierarchy related to discontinued businesses (see note 29 for further details). The fair value of derivative financial instruments is estimated by discounting the future contracted cash flow, using readily available market data.

Sensitivity analysis

For the year ended 31 October 2020 the closing exchange rate for the US dollar was 1.29 (2019: 1.29) and the average exchange rate was 1.28 (2019: 1.26).

For the year ended 31 October 2020 a 10 cent strengthening in the US dollar exchange rate would have increased reported net debt by approximately £4.5m (2019: £5.7m).

The following table details the Group's sensitivity to a 10 cent movement in the US dollar rate against sterling with regards to its income statement. The Group considers a 10 cent strengthening or weakening of US dollars against sterling as a reasonably possible change in foreign exchange rates. The other functional currencies used in the Group (Norwegian krone and Australian dollars) are not significant enough to have a material impact on the Group results in the event of a reasonably possible change to their exchange rates.

	+10 cents US dollar impact		–10 cents US dollar impact	
	2020 £m	2019 £m	2020 £m	2019 £m
Continuing operations				
Revenue	(12.8)	(12.9)	15.0	15.1
Underlying operating profit	(2.1)	(1.8)	2.6	2.5
Interest	0.1	0.2	(0.1)	(0.4)
Underlying profit before tax	(2.0)	(1.6)	2.5	2.1



Notes to the Group financial statements continued

22. Financial instruments continued

Sensitivity analysis continued

As at 31 October 2020, 92% of the Group's gross debt was at a fixed rate of 3.01% and the remainder was at floating rates. The Group monitors its exposure to movements in interest rates, having regard to prevailing market conditions and considers the use of interest rate swaps on an ongoing basis to manage this exposure. The Group has not entered into any interest rate swaps as of 31 October 2020.

As the Group mainly has fixed interest rate debt, a change in interest rates would not have an immediate significant impact on the income statement. A change in interest rates of 1% throughout the year would cause the Group's finance expense to change by £0.1m.

23. Provisions

	Legal provision £m	Environmental provision £m	Restructuring provision £m	Disposal provision £m	Other provision £m	Total £m
At 1 November 2019	6.8	3.2	1.3	2.9	3.0	17.2
Transfer between categories	—	—	—	3.0	(3.0)	—
Provided	0.8	0.2	—	3.6	1.1	5.7
Foreign exchange adjustments	—	—	—	—	—	—
Paid	(0.8)	(0.1)	(0.8)	(0.5)	(0.6)	(2.8)
Released	(1.0)	(0.1)	—	—	—	(1.1)
At 31 October 2020	5.8	3.2	0.5	9.0	0.5	19.0

These provisions are classified on the balance sheet as follows:

	2020 £m	2019 £m
Included in current liabilities	3.3	4.8
Included in non-current liabilities	15.7	12.4
	19.0	17.2

The legal provision represents the estimated legal liabilities faced by the Group at the balance sheet date. There are uncertainties regarding the range of possible outcomes and timing of cash outflows, dependent on the outcome of court proceedings. The amount of £1.0m released during the year was the result of a favourable resolution of a historic legal claim. Further details of the Group's contingent liabilities are set out in note 34.

The environmental provision is held in respect of potential liabilities, associated with the Group's facility in Chicago, US. The range of possible outcomes is between £1.0m and £7.4m. There are uncertainties regarding the timing of cash outflows, dependent on the outcome of regulatory proceedings.

The restructuring provision relates principally to the Tennessee capacity expansion programme which is expected to be completed in 2021. The range of possible outcomes is estimated between £0.5m and £0.6m.

The disposal provision relates to estimated liabilities faced by the Group in respect of the disposal of its European Munitions businesses in 2014 and its commoditised energetics businesses in Derby and Florida in 2019 and 2020 respectively, under the terms of their respective sale agreements. The range of possible outcomes is between £nil and £29.4m, and the risk of economic outflow relating to these reduces with the passage of time. These are expected to be utilised over the next six years.

Provisions are subject to uncertainty in respect of the outcome of future events. Legal provisions will be utilised based on the outcome of cases and the level of costs incurred defending the Group's position. Environmental provisions will be utilised based on the outcome of further environmental studies and remediation work. Restructuring provisions will be utilised based on actual costs incurred for demolition and environmental remediation and these will be impacted by the result of external assessments. Disposal provisions will be utilised based on the outcome of certain events which are specified in sale and purchase agreements. It is not possible to estimate more accurately the expected timing of any resulting outflows of economic benefits.



24. Deferred tax

The following are the principal deferred tax assets/(liabilities) recognised by the Group and movements thereon:

	Accelerated tax depreciation £m	Pensions £m	Tax losses £m	Acquired intangibles £m	Other £m	Total £m
At 1 November 2018	(8.8)	(1.2)	2.6	(5.0)	2.1	(10.3)
Credit/(charge) to income	1.7	(0.1)	5.1	(2.0)	1.6	6.3
(Charge)/credit to other comprehensive income	—	(0.7)	—	0.2	—	(0.5)
Transfers	(0.1)	0.1	(0.2)	(1.0)	1.2	—
At 1 November 2019	(7.2)	(1.9)	7.5	(7.8)	4.9	(4.5)
(Charge)/credit to income	(1.2)	(0.2)	1.7	(0.5)	(3.7)	(3.9)
Credit to other comprehensive income	0.1	0.7	—	0.3	0.1	1.2
Transfers	(0.3)	(0.1)	—	0.1	0.3	—
At 31 October 2020	(8.6)	(1.5)	9.2	(7.9)	1.6	(7.2)
Analysed as:						
Deferred tax assets	0.4	—	9.2	0.5	5.6	15.7
Deferred tax liabilities	(9.0)	(1.5)	—	(8.4)	(4.0)	(22.9)
At 31 October 2020	(8.6)	(1.5)	9.2	(7.9)	1.6	(7.2)
Deferred tax assets	1.5	—	7.5	0.6	8.9	18.5
Deferred tax liabilities	(8.7)	(1.9)	—	(8.4)	(4.0)	(23.0)
At 31 October 2019	(7.2)	(1.9)	7.5	(7.8)	4.9	(4.5)

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. Deferred tax balances after offset are analysed on the balance sheet as per the table above.

The UK corporation tax rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the company's future current tax charge accordingly.

At the balance sheet date, the Group had unrecognised deferred tax on losses of £2.1m (2019: £1.9m) and unrecognised deferred tax on interest deductions as a result of US interest limitation regulations of £22.7m (2019: £23.5m) potentially available for offset against future profits in certain circumstances. No deferred tax asset has been recognised in respect of these amounts because of the unpredictability of future taxable qualifying profit streams.

25. Share capital

	2020 £m	2019 £m
Issued and fully paid		
282,849,930 (2019: 282,489,995) ordinary shares of 1p each	2.8	2.8

During the year, 359,935 ordinary shares (2019: 726,631) were issued for cash to employees under the Group's approved savings-related share schemes.

The Company's share capital also includes 62,500 7% cumulative preference shares of £1 each, which are all issued and fully paid up, and are classified for accounting purposes within non-current liabilities. The cumulative preference shares carry an entitlement to a dividend at the rate of 7p per share per annum, payable in equal instalments on 30 April and 31 October each year. Holders of the preference shares have the right on a winding-up to receive, in priority to any other classes of shares, the sum of £1 per share together with any arrears of dividends.



Notes to the Group financial statements continued

26. Reserves

The share premium account, the special capital reserve and the revaluation reserve are not distributable.

The special capital reserve was created as part of a capital reduction scheme involving the cancellation of the share premium account which was approved by the Court in 1986, in accordance with the requirements of the Companies Act 1985.

Included within retained earnings is £2.7m (2019: £0.6m) of the Company's own shares held by the Group's Employee Share Ownership Plan Trust ("ESOP") which is treated as a branch of the parent company. The ESOP purchased 1,015,104 shares during the year (2019: nil) and 116,777 shares (2019: 90,073) were distributed following the vesting of awards under the deferred bonus and PSP schemes.

Group dividends (note 9) are payable out of the parent company retained earnings as disclosed in the parent company financial statements. This provides cover over the declared final dividend of 2.6p per ordinary share for the year ended 31 October 2020.

27. Own shares

	2020 £m	2019 £m
At 1 November 2019	7.8	7.8
Transactions	(4.9)	—
At 31 October 2020	2.9	7.8

The own shares reserve represents the cost of shares in the Company purchased in the market and held by the Group to satisfy awards under the Group's share-based incentive schemes, details of which are set out in note 28. Nil ordinary shares (2019: nil) were acquired during the year and 1,113,118 ordinary shares (2019: nil) were distributed following the vesting of awards under the PSP. The total number of ordinary shares held in treasury at 31 October 2020 was 675,592 (2019: 1,788,710), with an average cost of 439.0p (2019: 439.0p) per share.

This represents 0.2% (2019: 0.6%) of the total issued and fully paid ordinary share capital.

28. Share-based payments

The Group operates share-based compensation arrangements to provide incentives to the Group's senior management and eligible employees. The Group recognised a net charge of £4.0m (2019: £2.5m) in respect of share-based payments during the year.

Details of the four schemes which operated during the year are set out below.

The Chemring Group Performance Share Plan (the "PSP") and The Chemring Group Performance Share Plan 2016 (the "2016 PSP")

Under the PSP and the 2016 PSP, conditional awards of ordinary shares are made at nil cost to employees. Awards ordinarily vest on the third anniversary of the award date. The PSP commenced in March 2006 and expired in March 2016, when it was replaced by the 2016 PSP, which has broadly similar terms. Awards outstanding at 31 October 2020 all now relate to the 2016 PSP as the vesting date of any remaining PSP awards was reached during the prior year.

	PSP Number of conditional shares		2016 PSP Number of conditional shares	
	2020	2019	2020	2019
Outstanding at the beginning of the year	—	1,699,869	5,924,866	3,853,797
Awarded	—	—	2,404,522	2,952,924
Vested	—	—	(1,113,118)	—
Lapsed	—	(1,699,869)	(1,031,094)	(881,855)
Outstanding at the end of the year	—	—	6,185,176	5,924,866
Subject to vesting at the end of the year	—	—	—	—

The following awards were outstanding at 31 October 2020:

Date of award	Number of ordinary shares under award	Vesting price per share Pence	Date when awards due to vest
19 January 2018	1,017,973	nil	19 January 2021
26 June 2018	394,495	nil	26 June 2021
22 March 2019	2,496,118	nil	22 March 2022
17 December 2019	2,276,590	nil	17 December 2022

The Group has applied a discount to the share-based payments, to reflect the anticipated achievement of the stipulated targets for each 2016 PSP award based on the predicted figures within the Group's financial projections and the expected number of leavers over the life of the awards.



28. Share-based payments *continued*

The Chemring Group Performance Share Plan (the “PSP”) and The Chemring Group Performance Share Plan 2016 (the “2016 PSP”) *continued*

The 2016 PSP awards made in the year ended 31 October 2020 had targets based on earnings per share growth and total shareholder return.

The awards have been valued using the following modelling inputs:

	Date awarded			
	17 December 2019	22 March 2019	26 June 2018	19 January 2018
Share price at valuation	210p	140p	218p	188p
Exercise price	nil	nil	nil	nil
Risk-free rate	0.5%	0.6%	0.6%	0.6%
Expected volatility	29.1%	30.0%	36.1%	34.7%
Fair value	172.5p	98.2p	153.3p	132.2p

The weighted average fair value of awards made during the year was 172.5p (2019: 98.2p).

In the year ended 31 October 2020 1,113,118 awards vested (2019: nil). The charge recognised in respect of the awards is based on their fair value at the grant date.

The Chemring Group Restricted Share Plan (the “RSP”)

Under the RSP, deferred awards of ordinary shares are made at nil cost to employees. Awards ordinarily vest on the second or third anniversary of the award date. The first awards under the RSP were made in February 2013.

	Number of deferred shares	
	2020	2019
Outstanding at the beginning of the year	—	50,000
Awarded	—	—
Exercised	—	(50,000)
Outstanding at the end of the year	—	—
Subject to vesting at the end of the year	—	—

The Chemring Group 2008 and 2018 UK Sharesave Plan (the “UK Sharesave Plan”)

Options were granted during the year on 30 July 2020.

	2020		2019	
	Number of share options	Weighted average exercise price Pence	Number of share options	Weighted average exercise price Pence
Outstanding at the beginning of the year	1,428,744	152.8	1,901,810	135.1
Granted	831,613	202.0	591,995	154.0
Exercised	(359,935)	141.1	(717,423)	108.1
Lapsed	(126,680)	161.4	(347,638)	150.4
Outstanding at the end of the year	1,773,742	177.7	1,428,744	152.8
Subject to exercise at the end of the year	40,373	148.0	65,524	106.2

The following options were outstanding at 31 October 2020:

Date of award	Number of ordinary shares under award	Exercise price per share Pence	Dates between which options may be exercised
27 July 2016	66,283	105.0	1 October 2021–31 March 2022
27 July 2017	40,373	148.0	1 October 2020–31 March 2021
27 July 2017	51,079	148.0	1 October 2022–31 March 2023
30 July 2018	211,609	178.0	1 October 2021–31 March 2022
30 July 2018	60,328	178.0	1 October 2023–31 March 2024
29 July 2019	488,144	154.0	1 October 2022–31 March 2023
29 July 2019	38,569	154.0	1 October 2024–31 March 2025
30 July 2020	711,475	202.0	1 October 2023–31 March 2024
30 July 2020	105,882	202.0	1 October 2025–31 March 2026

The weighted average fair value of options granted in the year was 39.5p (2019: 30.0p).

The weighted average fair value of options exercised in the year was 35.0p (2019: 26.9p).

The weighted average share price on exercise of the options during the year was 141.1p (2019: 108.1p).

The fair values of the share options in the UK Sharesave Plan are based on the difference between the exercise price and the share price on the grant date of the option.



Notes to the Group financial statements continued

28. Share-based payments continued

Deferred bonus share awards

Under the deferred bonus share awards, deferred awards of ordinary shares are made at nil cost to employees. Awards ordinarily vest on the second or third anniversary of the award date.

	Number of deferred shares	
	2020	2019
Outstanding at the beginning of the year	246,496	246,496
Awarded	511,947	—
Vested	(116,777)	—
Lapsed	(26,301)	—
Outstanding at the end of the year	615,365	246,496
Subject to vesting at the end of the year	—	—

The following awards were outstanding at 31 October 2020:

Date of award	Number of ordinary shares under award	Vesting price per share Pence	Date when awards due to vest
18 January 2018	132,919	nil	18 January 2021
16 December 2019	276,870	nil	16 December 2021
16 December 2019	205,576	nil	16 December 2022

The Group has applied a discount to the share-based payments, to reflect the expected number of leavers over the life of the awards.

29. Assets and liabilities classified as held for sale

In 2018, a strategic review of the Group's energetics portfolio was conducted. The Board concluded that the future focus within the energetics segment should be on the energetic devices businesses. It therefore made the decision to exit a number of commoditised energetics businesses including Chemring Defence UK Limited, Chemring Prime Contracts Limited, Chemring Military Products, Inc. and Chemring Ordnance, Inc.

As at 31 October 2019, the sale of Chemring Defence UK Limited and Chemring Military Products, Inc. had been completed and Chemring Prime Contracts Limited closed. Accordingly, the remaining business, Chemring Ordnance, Inc., was presented as held for sale as at 31 October 2019.

In the year ended 31 October 2020, the Group sold Chemring Ordnance, Inc. to Nammo Defense Systems Inc., concluding the Group's exit from its commoditised energetics businesses. The Group therefore had no assets or liabilities classified as held for sale as at 31 October 2020.

Assets and liabilities classified as held for sale

As at 31 October 2019 the discontinued operations were stated at fair value less costs to sell and comprised the following assets and liabilities:

	2019 £m
Inventory	4.7
Trade and other receivables	2.3
Assets classified as held for sale	7.0
Trade and other payables	(1.8)
Liabilities directly associated with assets classified as held for sale	(1.8)

The above items were presented at the lower of carrying amount and fair value less costs to sell. Where the carrying value of the assets and liabilities was expected to be realised through sale, no fair value adjustments were carried out. None of the assets classified as held for sale and none of the liabilities classified as held for sale were shown at carrying value.

The assets and liabilities at fair value less costs to sell were valued on an undiscounted basis, with impairments down to realisable value applied to assets in order of increasing liquidity. This fair value measurement for the disposals was categorised as a Level 3 fair value based on the inputs to the valuation technique used. In 2019 £7.0m of assets classified as held for sale and £1.8m of liabilities classified as held for sale were shown at fair value.



30. Retirement benefit obligations

In the UK, the Group operates a defined benefit scheme (the "Chemring Group Staff Pension Scheme"). In Norway, Chemring Nobel operates a defined benefit scheme (the "Chemring Nobel Scheme"). The Group's other UK and overseas pension arrangements are all defined contribution schemes, with a combined cost of £6.1m (2019: £5.2m) for continuing operations.

The Chemring Group Staff Pension Scheme is a funded scheme and the assets of the scheme are held in a separate trustee administered fund. The scheme was closed to future accrual on 6 April 2012. A full actuarial valuation for the Scheme as at 6 April 2018 has been prepared and updated to 31 October 2020, using the projected unit credit method. The main assumptions for the scheme are detailed below. The surplus of the Chemring Group Staff Pension Scheme was £7.6m at 31 October 2020 (2019: £9.6m).

Under the funding plan agreed with the trustees following the 2018 actuarial valuation, the Company agreed to eliminate the deficit indicated by that valuation in the period to 31 December 2018. This funding plan provided for one further contribution of £0.4m which was made in November 2018. No further deficit recovery payments are required and the Group was released from the bank guarantee of £7.2m given to the Scheme in respect of future contributions. The Company and the trustees monitor funding levels annually, and a new funding plan is agreed with the trustees every three years, based on actuarial valuations. The next actuarial valuation is due as at 6 April 2021 at which point funding requirements will be reassessed.

The trust deed provides for an unconditional right to a return of surplus assets in the event of a plan wind-up. The trustees gave no rights to unilaterally wind up or augment the benefits due to members of the scheme. Based on these rights, any net surplus in the UK scheme is recognised in full.

The Chemring Nobel Scheme is a funded scheme and the assets of the scheme are held in a separate fund. The actuarial liability has been calculated at 31 October 2020 by a qualified actuary using the projected unit credit method. The main assumptions used were a discount rate of 1.5% and rate of increase in deferred pensions of 2%. The net deficit of the Chemring Nobel Scheme was £nil at 31 October 2020 (2019: £nil) and as such is immaterial for further detailed disclosures.

The movement in the net defined benefit asset is as follows:

	Defined benefit obligations		Defined benefit asset		Net defined benefit asset	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
At 1 November	(89.1)	(83.4)	98.7	90.9	9.6	7.5
Included in profit or loss						
Administrative expenses	—	—	(0.3)	(0.4)	(0.3)	(0.4)
Past service credit	—	0.3	—	—	—	0.3
Net interest (cost)/credit	(1.7)	(2.3)	1.9	2.5	0.2	0.2
	(1.7)	(2.0)	1.6	2.1	(0.1)	0.1
Included in other comprehensive income						
Remeasurement (loss)/gain:						
Actuarial (loss)/gain arising from:						
– demographic and financial assumptions	(4.2)	(7.1)	—	—	(4.2)	(7.1)
– experience adjustment	—	(0.1)	—	—	—	(0.1)
– return on plan assets excluding interest income	—	—	2.3	8.8	2.3	8.8
	(4.2)	(7.2)	2.3	8.8	(1.9)	1.6
Other						
Contributions by the employer	—	—	—	0.4	—	0.4
Net benefits paid out	3.7	3.5	(3.7)	(3.5)	—	—
At 31 October	(91.3)	(89.1)	98.9	98.7	7.6	9.6

The Chemring Group Staff Pension Scheme had 934 members at the end of the year (2019: 948). Of these members 57.8% (2019: 55.2%) were pensioners drawing benefits from the scheme and the balance were deferred members. The duration of the liability is long, with pension payments expected to be made for at least the next 40 years.



Notes to the Group financial statements continued

30. Retirement benefit obligations continued

The pension schemes' assets are analysed as follows:

	2020 £m	2019 £m	2020 %	2019 %
Equities	18.0	42.5	18.2	43.1
Liability driven investment	26.5	21.8	26.8	22.1
Corporate bonds	42.9	22.8	43.4	23.1
Assets held by insurance company	1.9	2.0	1.9	2.0
Cash	9.6	9.6	9.7	9.7
	98.9	98.7	100.0	100.0

The schemes' assets are invested in accordance with the statement of investment principles after taking professional advice from the schemes' investment advisers. The investment strategy is to split the assets into a growth portfolio of index trading equity funds, real return funds, and a matching portfolio of leveraged liability driven pooled funds.

The scheme's liability-matching portfolio is invested in leveraged pooled liability-driven investment ("LDI") funds and a liquidity fund. The Trustees target an interest rate and inflation hedge ratio of around 100% (based on the Scheme's technical provisions funding basis).

The principal assumptions used in the actuarial valuation of the Chemring Group Staff Pension Scheme were as follows:

	2020 %	2019 %
Discount rate	1.7	2.0
Rate of increase in deferred pensions	2.1	2.6
Rate of increase in pensions in payment (where applicable)	2.8	2.8
Inflation – RPI	2.9	2.9
– CPI	2.1	2.8

In determining defined benefit obligations, the Group uses mortality assumptions which are based on published mortality tables. For the Chemring Group Staff Pension Scheme, the actuarial table currently used is SAPS Normal Health pensioner tables with future improvements in line with CMI 2018 and a 1.25% long-term trend rate.

This results in the following life expectancies at age 65:

	2020	2019
Future pensioners – male	89.0	89.0
– female	90.6	90.6
Current pensioners – male	87.6	87.6
– female	89.1	89.1

The most significant assumptions in the pension valuation are the discount rate applied to the liabilities, the inflation rate to be applied to pension payments and the mortality rates. If the discount rate used in determining retirement benefit obligations were to change by 0.1% then it is predicted that the deficit in the scheme would change by approximately £1.4m. A change in the rate of inflation by 0.1% is predicted to change the deficit by approximately £0.7m and a one-year change to the longevity assumption would change the deficit by approximately £3.5m. The principal risks to the schemes are that the investments do not perform as well as expected, the discount rate continues to fall driven by lower market interest rates and the rate of improvement in mortality assumed is insufficient and life expectancies continue to rise.

The Group anticipates contributions to the defined benefit schemes for the year ending 31 October 2021 will be £nil (2020: £nil).



31. Cash generated from operating activities

	2020 £m	2019 £m
Operating profit from continuing operations	46.3	31.3
Amortisation of development costs	1.4	1.3
Amortisation of intangible assets arising from business combinations	8.9	12.1
Amortisation of patents and licences	—	0.1
Loss on disposal of non-current assets	0.3	0.7
Depreciation of property, plant and equipment	18.5	15.8
Non-cash movement of non-underlying items	(0.5)	0.6
Share-based payment expense	4.0	2.5
Operating cash flows before movements in working capital	78.9	64.4
Increase in inventories	(12.2)	(7.9)
(Increase)/decrease in trade and other receivables	(9.9)	10.4
Increase/(decrease) in trade and other payables	25.2	(2.7)
Increase/(decrease) in provisions	0.4	(0.3)
Operating cash flow from continuing underlying operations	82.4	63.9
Discontinued operations		
Operating cash flow from discontinued underlying operations	(2.6)	13.7
Cash impact of non-underlying items from discontinued operations	(1.3)	(7.1)
Tax paid	—	(0.7)
Net cash (outflow)/inflow from discontinued operating activities	(3.9)	5.9
Net cash inflow from discontinued investing activities	14.0	0.5
Net cash inflow from discontinued operations	10.1	6.4

32. Reconciliation of net cash flow to movement in net debt

	2020 £m	2019 £m
Increase/(decrease) in cash and cash equivalents	18.4	(12.6)
Decrease in debt and lease financing due to cash flows	16.8	18.4
Decrease in net debt resulting from cash flows	35.2	5.8
Effect of foreign exchange rate changes	(0.6)	0.5
Lease interest and other non-cash movements	(0.4)	—
Amortisation of debt finance costs	(0.2)	(0.2)
Movement in net debt	34.0	6.1
Adoption of IFRS 16 Leases	(6.5)	—
Net debt at the beginning of the year	(75.7)	(81.8)
Net debt at the end of the year	(48.2)	(75.7)

33. Analysis of net debt

	At 1 November 2019 £m	Adoption of IFRS 16 Leases £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	At 31 October 2020 £m
Cash and cash equivalents (including bank overdraft)	(3.3)	—	18.4	—	(0.4)	14.7
Debt due within one year (excluding bank overdraft)	(64.6)	—	64.6	—	—	—
Debt due after one year	(7.7)	—	(49.5)	(0.2)	(0.1)	(57.5)
Lease liabilities	—	(6.5)	1.7	(0.4)	(0.1)	(5.3)
Preference shares	(0.1)	—	—	—	—	(0.1)
	(75.7)	(6.5)	35.2	(0.6)	(0.6)	(48.2)

Accrued interest is included in the carrying amount of interest payable (note 21) measured at amortised cost and therefore is not presented as a separate line item in the above table.

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



Notes to the Group financial statements continued

34. Contingent liabilities

At 31 October 2020, the Group had contingent liabilities in respect of bank and contractual performance guarantees and other matters arising in the ordinary course of business. Where it is expected that a material liability will arise in respect of these matters, appropriate provision is made within the financial statements. As the conditions of these guarantees are currently being met, no obligating event is foreseeable and therefore no provision has been made.

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.

Controlled Foreign Company ("CFC") Finance Company exemption

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.

Serious Fraud Office investigation

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, with which the Group continues to co-operate fully.

Countermeasures UK incident

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.

Pricing of an historic contract

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. During the year, ASBCA issued its decision in relation to this matter in favour of Alloy Surfaces Company, Inc. As a result the contingent liability no longer exists as at 31 October 2020. At 31 October 2019 a provision of £1.0m existed to cover estimated legal costs for the Group with regards to this issue.

35. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions with the Group's pension schemes are disclosed in note 30.

Remuneration of key management personnel

The directors of the Company had no material transactions with the Company during the year, other than in connection with their service agreements. The remuneration of the executive directors is determined by the Remuneration Committee, having regard to the performance of the individuals and market trends. The remuneration of the non-executive directors is determined by the Board, having regard to the practice of other companies and the particular demands of the Group.

For the purposes of remuneration disclosure, key management personnel includes only the directors and excludes the other senior business managers and members of the Executive Committee. Further information on the remuneration of individual directors is provided in the audited part of the directors' remuneration report on pages 85 to 100.

Total emoluments for key management personnel charged to the consolidated income statement were:

	2020 £m	2019 £m
Short-term employee benefits	2.6	2.5
Post-employment benefits	0.2	0.2
Share-based payment benefits	1.5	1.0
Total remuneration of key management personnel	4.3	3.7

36. Events since the end of the year

There have been no events since the end of the year that require disclosure.



Parent company balance sheet

As at 31 October 2020

	Note	2020		2019	
		£m	£m	£m	£m
Non-current assets					
Property, plant and equipment	1	0.1		0.2	
Investments in subsidiaries	2	634.6		634.6	
Amounts owed by subsidiary undertakings	4	189.2		395.1	
Retirement benefit surplus	13	4.1		5.1	
			828.0		1,035.0
Current assets					
Trade and other receivables	4	12.6		21.5	
Cash and cash equivalents		36.7		25.1	
			49.3		46.6
Total assets			877.3		1,081.6
Current liabilities					
Borrowings	6	—		(64.6)	
Trade and other payables	5	(17.3)		(322.1)	
			(17.3)		(386.7)
Non-current liabilities					
Borrowings	6	(57.5)		—	
Trade and other payables	5	(1.1)		(25.7)	
Provisions	8	(6.7)		(2.9)	
Deferred tax	12	(0.8)		(0.4)	
Preference shares	9	(0.1)		(0.1)	
			(66.2)		(29.1)
Total liabilities			(83.5)		(415.8)
Net assets			793.8		665.8
Equity					
Share capital	10	2.8		2.8	
Share premium account		306.7		306.2	
Special capital reserve		12.9		12.9	
Retained earnings		474.3		351.7	
		796.7		673.6	
Own shares	11	(2.9)		(7.8)	
Total equity			793.8		665.8

Profit attributable to shareholders

In accordance with the concession granted under section 408 of the Companies Act 2006, the profit and loss account of Chemring Group PLC has not been presented separately in these financial statements. There is no material difference between the results disclosed and the results on an unmodified historical cost basis. The Company reported a profit for the year ended 31 October 2020 of £137.6m (2019: £18.1m).

These financial statements of Chemring Group PLC (registered number 86662) were approved and authorised for issue by the Board of directors on 15 December 2020.

Signed on behalf of the Board

Michael Ord
Director

Andrew Lewis
Director



Parent company statement of comprehensive income

For the year ended 31 October 2020

	2020 £m	2019 £m
Profit after tax attributable to equity holders of the parent as reported	137.6	18.1
Items that will not be reclassified subsequently to profit and loss		
Actuarial (losses)/gains on pension scheme, net of deferred tax	(0.8)	0.6
Total comprehensive income attributable to the equity holders of the parent	136.8	18.7

Parent company statement of changes in equity

For the year ended 31 October 2020

	Share capital £m	Share premium account £m	Special capital reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2019	2.8	306.2	12.9	351.7	(7.8)	665.8
Profit after tax	—	—	—	137.6	—	137.6
Other comprehensive loss	—	—	—	(0.8)	—	(0.8)
Total comprehensive income	—	—	—	136.8	—	136.8
Ordinary shares issued	—	0.5	—	—	—	0.5
Share-based payments (net of settlement)	—	—	—	3.4	—	3.4
Dividends 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	—
At 31 October 2020	2.8	306.7	12.9	474.3	(2.9)	793.8

	Share capital £m	Share premium account £m	Special capital reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2018	2.8	305.4	12.9	341.0	(7.8)	654.3
Profit after tax	—	—	—	18.1	—	18.1
Other comprehensive income	—	—	—	0.6	—	0.6
Total comprehensive income	—	—	—	18.7	—	18.7
Ordinary shares issued	—	0.8	—	—	—	0.8
Share-based payments (net of settlement)	—	—	—	1.5	—	1.5
Dividends paid	—	—	—	(9.5)	—	(9.5)
At 31 October 2019	2.8	306.2	12.9	351.7	(7.8)	665.8

The auditor's remuneration for audit and other services is disclosed in note 4 to the Group financial statements.

A final dividend of 2.6p per ordinary share has been proposed. See note 9 to the Group financial statements.

As at 31 October 2020 the Company had distributable reserves of £474.3m (2019: £351.7m). When required, the Company can receive dividends from its subsidiaries to further increase distributable reserves.

Included within retained earnings is the Company's own shares held by the Group's Employee Share Ownership Plan Trust ("ESOP"), see note 26 of the Group financial statements for details.



Notes to the parent company financial statements

1. Property, plant and equipment

Detailed disclosure of property, plant and equipment was not considered necessary due to its immaterial value. The Company had no capital commitments as at 31 October 2020 or 31 October 2019.

2. Investments in subsidiaries

	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Cost			
At 1 November 2018 and 31 October 2019	692.5	6.6	699.1
At 31 October 2020	692.5	6.6	699.1
Impairment			
At 1 November 2018	(46.3)	—	(46.3)
Impairment	(18.2)	—	(18.2)
At 31 October 2019 and 31 October 2020	(64.5)	—	(64.5)
Carrying amount			
At 31 October 2020	628.0	6.6	634.6
At 31 October 2019	628.0	6.6	634.6

Investment values are allocated to their respective legal entities. Where the investment value relates to an intermediate holding company, the subsidiaries of that holding company are used to support the carrying value.

As at 31 October 2020, the net assets of the parent company exceeded the market capitalisation of the group which is an indicator of impairment which has been considered in the Company's impairment review.

The Company tests investments at least annually for impairment. Tests are conducted more frequently if there are indications that investments might be impaired. The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions for the value-in-use calculations have been individually estimated for each CGU and are detailed in note 11 of the Group financial statements.

In 2019 the Company concluded that the investment relating to Chemring Europe Limited and Chemring International Limited was fully impaired and a charge of £18.2m was recorded.

Stress testing was performed on the forecasts to consider the impact of reasonably worst case scenarios in the first five years, including significant delays to major contracts and new product lines, followed by a 10% fall in the forecast cash flows. This would not result in an impairment to any of the investment values being required.

There are no reasonably possible changes in assumptions that would require an impairment of investments in subsidiaries.

3. Investments in Group undertakings

Details of the Group undertakings at 31 October 2020 are set out in note 14 to the Group financial statements.

The directors consider that the carrying value of the investments does not exceed their fair value.

4. Trade and other receivables

	2020 £m	2019 £m
Within current assets		
Amounts owed by subsidiary undertakings	11.6	19.7
Other receivables	—	1.1
Derivative financial instruments (note 22 to the Group financial statements)	0.4	0.2
Prepayments and accrued income	0.6	0.5
	12.6	21.5
Within non-current assets		
Amounts owed by subsidiary undertakings	189.2	395.1
	189.2	395.1

The directors consider that the carrying value of the trade and other receivables approximates to their fair value.

Interest on amounts owed by subsidiary undertakings is charged between 0% and 8%. No interest is charged on trade and other receivables from the date of invoice to payment. Of the £189.2m owed by subsidiary undertakings classified within non-current assets, £77.5m is contractually due in 2 to 5 years. The remainder is contractually due in less than 2 years.



Notes to the parent company financial statements continued

5. Trade and other payables

	2020 £m	2019 £m
Within current liabilities		
Corporation tax payable	—	1.1
Derivative financial instruments (note 22 to the Group financial statements)	0.7	0.9
Trade payables	0.2	0.3
Amounts owed to subsidiary undertakings	5.4	313.4
Other payables	9.0	4.6
Other tax and social security	0.2	0.2
Accruals and deferred income	1.8	1.6
	17.3	322.1
Within non-current liabilities		
Derivative financial instruments (note 22 to the Group financial statements)	—	0.3
Amounts owed to subsidiary undertakings	1.1	25.4
	1.1	25.7

Interest on amounts owed to subsidiary undertakings attracts interest rates between 0% and 2%. No interest is payable on trade payables from the date of invoice to payment.

6. Borrowings

	2020 £m	2019 £m
Within current liabilities		
Loan notes – US dollar denominated	—	64.6
Borrowings due within one year	—	64.6
Bank borrowings – US dollar denominated	57.5	—
Borrowings due after more than one year	57.5	—
Total borrowings	57.5	64.6

An analysis of borrowings by maturity is as follows:

	2020 £m	2019 £m
Borrowings falling due:		
– less than one year	—	64.6
– within one to two years	57.5	—
– within two to five years	—	—
	57.5	64.6

The interest incurred on the above borrowings is detailed within notes 7 and 18 to the Group financial statements.

7. Leases

The interest expense on lease liabilities is £nil. In total, payments of £0.1m were made under leasing contracts, of which £0.1m was made to repay the principal portion of the lease. The total lease liability at 31 October 2020 was less than £0.1m.

8. Provisions

	Legal provision £m	Total £m
At 1 November 2019	2.9	2.9
Provided	4.6	4.6
Paid	(0.8)	(0.8)
At 31 October 2020	6.7	6.7

It is not possible to estimate more accurately the expected timing of any resulting outflows of economic benefits. The legal provision represents the estimated legal costs relating to ongoing investigations.



9. Preference shares

	2020 £m	2019 £m
Cumulative preference shares (62,500 shares of £1 each)	0.1	0.1

The cumulative preference shares carry an entitlement to a dividend at the rate of 7p per share per annum, payable in equal instalments on 30 April and 31 October each year. Holders of the preference shares have the right on a winding-up to receive, in priority to any other classes of shares, the sum of £1 per share together with any arrears of dividends.

10. Share capital

	2020 £m	2019 £m
Issued, allotted and fully paid		
282,849,930 (2019: 282,489,995) ordinary shares of 1p each	2.8	2.8

During the year, 359,935 ordinary shares (2019: 726,631) were issued for cash to employees under the Group's approved savings-related share schemes.

The preference shares are presented as a liability and accordingly are excluded from called-up share capital in the balance sheet.

Share-based incentive schemes

Full details of the schemes are set out in note 28 to the Group financial statements.

11. Own shares

	2020 £m	2019 £m
At the beginning of the year	7.8	7.8
Transactions	(4.9)	—
At the end of the year	2.9	7.8

The own shares reserve represents the cost of shares in Chemring Group PLC purchased in the market and held by the Group to satisfy awards under the Group's share-based incentive schemes (see note 28 to the Group financial statements). During the year, no ordinary shares (2019: nil) were acquired and 1,113,118 ordinary shares (2019: nil) were distributed following the vesting of awards under the Chemring Group Performance Share Plan. The total number of ordinary shares held in treasury at 31 October 2020 was 675,592 (2019: 1,788,710), with an average cost of 439.0p (2019: 439.0p) per share. This represents 0.2% (2019: 0.6%) of the total issued and fully paid ordinary share capital.

12. Deferred tax

	2020 £m	2019 £m
At the beginning of the year	(0.4)	(0.1)
Charge to income statement	(0.5)	—
Credit/(charge) to other comprehensive income	0.1	(0.3)
Deferred tax liability at the end of the year	(0.8)	(0.4)
The amount provided represents:		
Other timing differences	(0.8)	(0.4)

At the balance sheet date, the Company had unrecognised tax losses of £nil (2019: £nil) potentially available for offset against future profits in certain circumstances.



Notes to the parent company financial statements continued

13. Pensions

The Company has assumed its share of the assets and liabilities of the Group's defined benefit pension scheme. An analysis of the surplus balance is shown below:

	Total £m
At 1 November 2018, retirement benefit surplus	3.1
Transfer of retirement benefit surplus from subsidiary	0.8
Contributions	0.4
Other finance costs	(0.1)
Actuarial movements	0.9
At 31 October 2019, retirement benefit surplus	5.1
Contributions	—
Other finance costs	(0.1)
Actuarial movements	(0.9)
At 31 October 2020, retirement benefit surplus	4.1

Further details are set out in note 30 to the Group financial statements.

14. Staff costs

	2020 Number	2019 Number
Average monthly number of total employees (including executive directors)	29	30

The costs incurred in respect of these employees (including share-based payments) were:

	2020 £m	2019 £m
Wages and salaries	6.7	4.9
Social security costs	0.6	0.6
Other pension costs	0.5	0.5
Share-based payment	2.3	1.9
	10.1	7.9

Disclosures in respect of directors' emoluments can be found in the directors' remuneration report on pages 82 to 100.



Five-year record

For the year ended 31 October 2020

	2020 £m	2019 £m	2018 £m	2017 ¹ £m	2016 ¹ £m
Revenue	402.5	335.2	297.4	307.1	307.3
Underlying operating profit	54.7	44.0	31.0	31.5	31.1
Non-underlying items	(8.4)	(12.7)	(46.9)	(26.9)	(16.5)
Operating profit/(loss)	46.3	31.3	(15.9)	4.6	14.6
Finance expense	(3.0)	(4.6)	(6.1)	(11.3)	(18.2)
Profit/(loss) before taxation	43.3	26.7	(22.0)	(6.7)	(3.6)
Taxation	(8.6)	(3.6)	(18.8)	2.4	1.8
Profit/(loss) for the year from continuing operations	34.7	23.1	(40.8)	(4.3)	(1.8)
(Loss)/profit after tax from discontinued operations	—	(1.2)	(65.0)	10.9	12.9
Profit/(loss) attributable to equity shareholders	34.7	21.9	(105.8)	6.6	11.1
Intangible assets and property, plant and equipment	348.9	329.9	318.9	376.2	430.8
Working capital	85.1	90.5	83.7	89.0	82.0
Provisions	(19.0)	(17.2)	(20.7)	(15.3)	(16.2)
Retirement benefit surplus/(deficit)	7.6	9.6	7.5	(0.6)	(17.3)
Net current and deferred tax (liabilities)/assets	(16.3)	(8.5)	(11.1)	4.2	(2.0)
Net debt	(48.2)	(75.7)	(81.8)	(80.0)	(87.6)
Other	(28.5)	(22.8)	(2.3)	27.7	23.7
Net assets employed	329.6	305.8	294.2	401.2	413.4
Financed by:					
Ordinary share capital	2.8	2.8	2.8	2.8	2.8
Reserves attributable to equity shareholders	326.8	303.0	291.4	398.4	410.6
Total equity	329.6	305.8	294.2	401.2	413.4
Basic underlying earnings per ordinary share (continuing operations)	15.1p	11.2p	6.9p	5.9p	5.0p
Diluted underlying earnings per ordinary share (continuing operations)	14.8p	11.0p	6.7p	5.8p	4.9p
Basic earnings/(loss) per ordinary share (continuing operations)	12.3p	8.2p	(14.6)p	(1.5)p	(0.7)p
Diluted earnings/(loss) per ordinary share (continuing operations)	12.0p	8.1p	(14.6)p	(1.5)p	(0.7)p
Dividend per share	3.9p	3.6p	3.3p	3.0p	1.3p

As presented in the consolidated financial statements for that year.

1. Comparative figures in the years 2016 and 2017 have been adjusted to reflect the transfer of the commoditised energetics businesses to discontinued operations.



Accounting policies

1. General information

Chemring Group PLC is a company incorporated in England and Wales under registration number 86662. The address of the registered office is Roke Manor, Old Salisbury Lane, Romsey, Hampshire, SO51 0ZN. The nature of the Group's operations and its principal activities are set out in note 2 of the Group financial statements and in the directors' report on pages 101 to 104. These financial statements are the consolidated financial statements of Chemring Group PLC and its subsidiaries (the "Group").

Chemring Group PLC and the companies in which it directly and indirectly owns investments are separate and distinct entities. In this publication of the annual report and accounts, the collective expressions "Chemring" and "the Group" may be used for convenience where reference is made in general to those companies. Likewise, the words "we", "us", "our" and "ourselves" are used in some places to refer to the subsidiaries of the Group in general. These expressions are also used where no useful purpose is served by identifying any particular company or companies.

The financial statements are presented in pounds sterling, being the currency of the primary economic environment in which the Group operates, and rounded to the nearest £0.1m. Foreign operations are included in accordance with the foreign currencies accounting policy.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Group and the Company have adequate resources to continue to adopt the going concern basis of accounting in preparing these financial statements. Further detail is contained in the statement on going concern on page 45.

2. Adoption of new and revised standards

The following standards, amendments and interpretations have been issued by the International Accounting Standards Board ("IASB") or by the IFRS Interpretations Committee. 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 2020 and have materially impacted the reported results or the financial position:
 - > IFRS 16 *Leases*.

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

The Group has adopted IFRS 16 using the modified retrospective transition approach, which does not require the restatement of comparative figures. Adoption of IFRS 16 resulted in right-of-use assets of £6.3m and lease liabilities of £6.5m being recognised on the balance sheet. The weighted average incremental borrowing rate applied to lease liabilities at the date of initial application was 3%. The difference between the lease liability recognised on transition and the operating lease commitments disclosed under IAS 17 at 31 October 2019, discounted using the incremental borrowing rate at the date of initial application, is due to the exclusion of leases relating to low-value assets.

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

- > the exclusion of leases relating to low-value assets (less than £50,000 when new); and
 - > the exclusion of short-term leases, being those with a lease term of 12 months or less.
- ii) The following IFRIC interpretations, amendments to existing standards and new standards were adopted in the year ended 31 October 2020 but have not materially impacted the reported results or the financial position:
 - > Amendments to IAS 19 *Employee Benefits*;
 - > Annual Improvements to IFRSs 2015–2017 Cycle; and
 - > IFRIC 23 *Uncertainty over Income Tax Treatments*.
 - 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 2020

- > 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*.

Effective for periods beginning on or after 1 January 2021

- > IFRS 17 *Insurance Contracts*.

Effective for periods beginning on or after 1 January 2022

- > Amendments to IAS 16 *Property, Plant and Equipment*;
- > Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- > Annual Improvements to IFRSs 2018–2020 Cycle.

Effective for periods beginning on or after 1 January 2023

- > Amendments to IAS 1 *Presentation of Financial Statements*.

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.

3. Group accounting policies

Basis of preparation

These financial statements have been prepared in accordance with IFRS adopted for use in the EU and therefore comply with Article 4 of the EU IAS Regulation. These financial statements have also been prepared in accordance with IAS, IFRS and related IFRIC interpretations, subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the IASB that have been endorsed by the EU (collectively referred to as IFRS). These are subject to ongoing review and endorsement by the EU or possible amendment by interpretive guidance from the IASB and the IFRIC, and are therefore still subject to change.



3. Group accounting policies continued

Basis of preparation continued

In accordance with IFRS 5, the 2019 comparative figures in the consolidated income statement and consolidated statement of cash flows and related notes show only continuing operations. Discontinued operations are shown as a single line item in the consolidated income statement as required by the standard.

The financial statements are prepared under the historical cost convention, except as described below under the heading of "Derivative financial instruments".

The accounting policies adopted have been applied consistently throughout the current and previous year.

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiaries. A subsidiary undertaking is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. The results of subsidiaries acquired are consolidated from the date on which control passes to the Group and the results of disposed subsidiaries are consolidated up to the date on which control passes from the Group.

The Company considers that it has the power to govern the financial and operating policies of the US entities falling within the Special Security Agreement and these entities have therefore been consolidated in these financial statements.

The Company and all of its subsidiaries make up their financial statements to the same date. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Chemring is organised into two sectors, Sensors & Information and Countermeasures & Energetics.

From a revenue recognition perspective, whilst Chemring operates across the whole life cycle of its products and services, these are generally awarded by its customers as individual contracts for the different stages rather than being large, complex, long-term framework agreements requiring extensive consideration of price allocation and performance obligations. As a result we are less susceptible to judgements over revenue recognition regarding contract performance, modifications and cancellations.

Whilst as a group we aim to develop products which can be sold on to multiple end users and markets, in some instances, the nature of products and services are unique to a customer and may not have an alternative use at the point of production. In such cases, where an enforceable right to payment exists, revenue will be recognised over time.

From time to time we enter into contracts for 'customer-funded R&D' where Chemring provide a service towards the development of a technology for a customer resulting in revenue. In certain instances, Chemring partly fund the development effort and these can result in the recognition of a controlled asset.

Contracts

The majority of the Group's revenue arises from the manufacture and shipment of goods.

Sales contracts are reviewed for performance obligations but the principal driver for timing of revenue recognition is delivery obligations, typically based on Incoterms. Certain contracts may also require customer acceptance testing. Once the relevant delivery obligation has been met, and as applicable, customer acceptance received, revenue can be recognised.

The timing of payment from customers is generally aligned to revenue recognition, though on certain contracts advance receipts are received as disclosed in note 20. This also applies to sales where there are no goods shipped but a deliverable is completed at a certain point in time, such as the issue of a report where there is no enforceable right to payment for work in progress.

In a smaller number of cases, revenue also arises from milestone contracts that contain multiple performance obligations. Often these contracts are already divided into milestones for payment purposes, but judgement is required when assessing the way the contract is divided up to ensure that each element is a separate and valid performance obligation. If they are not, the relevant revenue amount is allocated across the other obligations as appropriate. In some cases milestones are achieved in one period but not billed until the next period, leading to a timing difference with the recognition of revenue in advance of customer billing. In this instance accrued income is recognised as described in note 16. There are no contracts with a significant financing component.

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. This is based on the agreed contract price, with no material claims and incentive payment terms, and therefore significant judgement to determine the transaction price is not required. Typically our contracts do not have any material variable consideration and no significant judgement has been required around the extent to which this ought to be recognised. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices, where stand-alone selling prices are typically estimated based on expected costs plus contract margin.

The Group provides warranties to its customers to give them assurance that its products and services will function in line with agreed-upon specifications. Warranties are not provided separately and, therefore, do not represent separate performance obligations.

A number of sales contracts allow for bill and hold arrangements, where the customer has bought the goods but has not yet taken physical possession. This usually arises when the customer has limited storage space or there have been delays in their own production schedule. For such revenue to be recognised the bill and hold arrangement must be substantive and the relevant goods must be clearly identified as belonging to the customer and ready for immediate shipment at the customer's request. These categories of sales are common across all segments.

Qualifying costs to obtain a contract are not material across the Group.

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Group has identified a sales contract with a customer;
- the performance obligations within this contract have been identified;
- the transaction price has been determined;
- this transaction price has been allocated to the performance obligations in the contract; and
- revenue is recognised as or when each performance obligation is satisfied.

Performance obligations are satisfied when the customer gains control of promised goods or services from the contract. Customers do not typically gain a right of return of goods.

Rendering of services

Revenue from a contract to provide services, including customer-funded research and development, is recognised by reference to the stage of completion of the contract. Stage of completion is typically estimated by either the proportion of contract costs incurred for work performed to date or completion of relevant milestones where this faithfully depicts the transfer of control of the goods and services to the customer and does not significantly differ from using the proportion of contract costs incurred basis.

Another significant source of Group revenue, especially within the Sensors & Information segment, arises from time and materials contracts, where revenue is typically accrued and billed in the following month based on work performed to date, following which payment is typically promptly received.



3. Group accounting policies continued

Acquisitions and disposals

On acquisition of a subsidiary, associate or jointly controlled entity, the cost is measured as the fair value of the consideration. The assets, liabilities and contingent liabilities of subsidiary undertakings that meet the IFRS 3 (Revised) *Business Combinations* recognition criteria are measured at the fair value at the date of acquisition, except that:

- deferred tax assets or liabilities, and liabilities or assets relating to employee benefit arrangements, are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 (Revised) *Employee Benefits* respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 *Share-based Payments*; and
- assets (or disposal groups) that are classified as held for sale, in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, are measured in accordance with that standard.

Where cost exceeds fair value of the net assets acquired, the difference is recorded as goodwill.

Where the fair value of the net assets exceeds the cost, the difference is recorded directly in the income statement. The accounting policies of subsidiary undertakings are changed where necessary to be consistent with those of the Group.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities recognised, to reflect new information obtained about facts and circumstances that existed as at the acquisition date that, if known, would have affected the amounts recognised as at that date.

The measurement period runs from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as at the acquisition date, subject to a maximum period of one year.

In accordance with IFRS 3 (Revised) *Business Combinations*, acquisition and disposal-related items are recognised through the income statement. Acquisition and disposal-related items refer to credits and costs associated with the acquisition and disposal of businesses, together with the costs of aborted bids and the establishment of joint ventures.

Discontinued operations and assets held for sale

When the Group makes a decision to exit a significant business unit or separate major line of business, the associated operations and cash flows are classified as discontinued operations in the financial statements, in accordance with the provisions of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

These discontinued operations may represent components of the Group that have already been disposed of or are classified as held for sale.

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sales transaction rather than continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify as a completed sale within one year from the date of classification.

Intangible assets – goodwill

The purchased goodwill of the Group is regarded as having an indefinite useful economic life and, in accordance with IAS 36 *Impairment of Assets*, is not amortised but is subject to annual tests for impairment. On disposal of a subsidiary, associate or jointly controlled entity, the amount attributable to goodwill is included in the determination of the profit or loss on disposal.

Acquired intangibles

The Group recognises, separately from goodwill, intangible assets that are separable or arise from contractual or other legal rights and whose fair value can be measured reliably. These intangible assets are amortised at rates calculated to write down their cost or valuation to their estimated residual values by equal instalments over their estimated useful economic lives, which are:

- | | | |
|--------------------------|---|----------------------|
| • technology | – | average of ten years |
| • customer relationships | – | average of ten years |

Development costs

Development costs that qualify as intangible assets are capitalised as incurred and, once the relevant intangible asset is ready for use, are amortised on a straight-line basis over their estimated useful lives, averaging ten years (2019: eight years).

The carrying value of development assets is assessed for recoverability at least annually or when a trigger is identified.

Patents and licences

Patents and licences are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives, averaging seven years (2019: eight years).

Property, plant and equipment

Other than historically revalued land and buildings, property, plant and equipment is held at cost less accumulated depreciation and any recognised impairment loss. Borrowing costs on significant capital expenditure projects are capitalised and allocated to the cost of the project.

No depreciation is provided on freehold land. On other assets, depreciation is provided at rates calculated to write down their cost or valuation to their estimated residual values by equal instalments over their estimated useful economic lives, which are:

- | | | |
|-----------------------|---|-------------------------|
| • freehold buildings | – | up to fifty years |
| • leasehold buildings | – | the period of the lease |
| • plant and equipment | – | up to ten years |

Impairment of non-current assets

Assets that have indefinite lives are allocated to the Group's cash-generating units and tested for impairment at least annually. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever changes in circumstances indicate that the carrying value may not be recoverable. To the extent that the carrying value exceeds the recoverable amount, an impairment loss is recorded for the difference as an expense in the income statement. The recoverable amount used for impairment testing is the higher of the value-in-use and the asset's fair value less costs of disposal. For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost represents materials, direct labour, other direct costs and related overheads, and is determined using a weighted average cost basis. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

Provision is made for slow-moving, obsolete and defective items where appropriate.



3. Group accounting policies continued

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are ready for their intended use. Once the assets are ready for their intended use, these capitalised borrowing costs are depreciated in line with the underlying asset.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants for staff retraining costs are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Government grants relating to property, plant and equipment are treated as deferred income and released to the income statement over the expected useful economic lives of the assets concerned.

Tax

The tax expense represents the sum of current tax and deferred tax.

Current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it excludes items of income or expense that are never taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax represents amounts expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable taxable profits will be available in the future against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxed by the same tax authority, and when the Group intends to settle its current tax assets and liabilities on a net basis.

Special capital reserve

The special capital reserve was created as part of a capital reduction scheme involving the cancellation of the share premium account which was approved by the Court in 1986, in accordance with the requirements of the Companies Act 1985.

Foreign currencies

The individual financial statements of each Group company are presented in its functional currency, being the currency of the primary economic environment in which it operates. For the purpose of these Group financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for these financial statements.

In preparing the financial statements of each Group company, transactions in foreign currencies, being currencies other than the entity's functional currency, are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are included in the income statement for the period.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward foreign exchange contracts which are accounted for as derivative financial instruments (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

For the purpose of presenting these financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Financial instruments

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Trade receivables

Trade receivables do not carry any interest and are stated at their fair value and amortised cost as reduced by appropriate allowances for expected credit losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Financial liabilities and derivative financial instruments

Financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, and direct issue costs are accounted for on an accruals basis in the income statement using the effective interest method, and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.



Accounting policies continued

3. Group accounting policies continued

Financial liabilities and derivative financial instruments continued

Trade payables

Trade payables are not interest bearing and are stated at their fair value and amortised cost.

Derivative financial instruments

The Group's activities expose it to the financial risks of foreign currency transactions, and it uses forward foreign exchange contracts to hedge its exposure to these transactional risks. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are recognised at fair value on the date the derivative contract is entered into and are revalued to fair value at each balance sheet date. The fair values of derivative financial instruments are calculated by external valuers.

The method by which any gain or loss is recognised depends on whether the instrument is designated a hedging instrument or not. To be designated as a hedging instrument, the instrument must be documented as such at inception, and must be assessed at inception and on an ongoing basis to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedge accounting principles are used for forward foreign exchange contracts where appropriate, with movements in fair value taken to equity, until such time as the underlying amounts of the contract mature. At maturity or disposal of the net investment, the amounts held in equity will be recycled to the income statement. Changes in fair value of any ineffective portion of net investment hedges and interest rate swap contracts are recognised in the income statement immediately.

Where derivative financial instruments do not meet the criteria for hedge accounting principles, the changes in fair value are immediately recognised in the income statement.

Hedges of net investments in foreign operations

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the statement of comprehensive income and accumulated in the translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an administrative expense in the period to which they relate. For defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in the statement of comprehensive income in full in the period in which they occur.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The discount on scheme liabilities less the expected return on scheme assets on defined benefit obligations is included within finance expense.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Leased assets

At the lease commencement date (i.e. the date the underlying asset is available for use), the Group recognises a right-of-use asset and a lease liability on the balance sheet.

The lease liability is initially measured at the present value of future lease payments, discounted using the Group's incremental borrowing rate. The right-of-use asset is initially measured at cost, comprising the initial value of the lease liability, any lease payments made before commencement of the lease, any initial direct costs and any restoration costs. The asset is recorded as property, plant and equipment, and is depreciated over the shorter of its estimated useful economic life and the lease term on a straight-line basis.

The finance cost is charged to the income statement over the lease term to produce a constant periodic rate of interest on the lease liability. The lease payment is allocated between repayment of the lease liability and finance cost.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in the income statement on a straight-line basis over the lease term.

Share-based compensation

The Group operates equity-settled share-based compensation schemes.

For grants made under the Group's share-based compensation schemes, the fair value of an award is measured at the date of grant and reflects any market-based vesting conditions. Non-market-based vesting conditions are excluded from the fair value of the award. At the date of grant, the Company estimates the number of awards expected to vest as a result of non-market-based vesting conditions, and the fair value of this estimated number of awards is recognised as an expense in the income statement on a straight-line basis over the vesting period. At each balance sheet date, the impact of any revision to vesting estimates is recognised in the income statement over the vesting period. Proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium.

Provisions

Provisions are recognised when the Group has a present obligation, either legal or constructive, as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the estimated cash flows to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Environmental provisions

Where the Group is liable for decontamination work or the restoration of sites to their original condition, an estimate is made of the costs needed to complete these works, discounted back to present values, relying upon independent third party valuers where appropriate.

Restructuring provisions

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring and not those associated with the ongoing activities of the entity.



3. Group accounting policies continued

Provisions continued

Warranty provisions

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, based upon the best estimate of the expenditure required to settle the Group's obligations.

Disposal provisions

Disposal provisions relate to estimated liabilities faced by the Group in respect of discontinued operations and other disposed entities under the terms of their respective sale agreements.

Contingent liabilities

The Group exercises judgement in recognising exposures to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement may be necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and/or to quantify the possible range of the financial settlement.

Alternative Performance Measures

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 metrics are presented which are also considered 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 assists 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;
- gains or losses on the movement in the fair value of derivative financial instruments; and
- the tax impact of all of the above.

The Group's use of APMs is consistent and we provide comparatives alongside all current period figures.

Further detail on the APMs presented within these financial statements, including a reconciliation to the IFRS equivalent, is presented in note 3.

Exceptional items

Exceptional items are excluded from management's assessment of profit because by their size or nature they could distort the Group's underlying quality of earnings. They are typically gains or losses arising from events that are not considered part of the core operations of the business. These items are excluded to reflect performance in a consistent manner and are in line with how the business is managed and measured on a day-to-day basis.

Post balance sheet events

In accordance with IAS 10 *Events after the Reporting Period*, the Group continues to disclose events that it considers material, non-disclosure of which can influence the economic decisions of users of the financial statements.

4. Chemring Group PLC – parent company accounting policies

FRS 101 Reduced Disclosure Framework

The financial statements have been prepared in accordance with FRS 101 *Reduced Disclosure Framework*.

The Company operates a multi-employer defined benefit scheme including employees of other Group companies. Following FRS 101, the scheme assets and liabilities have been allocated across the Group companies using a method that management considers to be the most appropriate, based on scheme membership.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- share-based payments;
- financial instruments;
- fair value measurements;
- IFRS 16 *Leases* (paragraphs 52 and 58);
- presentation of comparative information in respect of certain assets;
- IFRSs issued but not yet effective;
- related party transactions;
- assumptions and sensitivities for impairment review; and
- cash flow.

Investment in Group undertakings

Investments are stated at cost less any provision for impairment in value.

Critical accounting judgements and sources of estimation uncertainty

There are no critical accounting judgements for the Company. The key sources of estimation uncertainty are below.

Investments in subsidiaries impairment

Determining whether investments in subsidiaries are impaired requires an estimation of the value-in-use of the legal entities to which the investments relate. Where the investment value relates to an intermediate holding company, the subsidiaries of that holding company are used to support the carrying value. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the legal entity, and to determine a suitable discount rate in order to calculate present value (see note 11). In reviewing the carrying value of investments in subsidiaries, the Board has considered the separate plans and cash flows of these businesses consistent with the requirements of IAS 36 *Impairment of Assets*. The plans and cash flows of these businesses reflect current and anticipated conditions in the defence industry. The total investments in subsidiaries is set out in note 2 of the parent company financial statements, which shows a carrying value of £634.6m at 31 October 2020.

5. Accounting judgements and sources of estimation uncertainty

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



5. Accounting judgements and sources of estimation uncertainty continued

Accounting judgements

Revenue recognition

Following IFRS 15 *Revenue from Contracts with Customers*, the Group recognises revenue on the basis of the satisfaction of performance obligations.

Management has to consider whether performance obligations should be recognised at a single point in time, which is generally the case for the sale of products by the Group, or over a period of time, which is more common for certain service contracts.

In making its judgement about obligations that are satisfied at a point in time, management has to consider at what point control has passed to the customer, allowing revenue to be recognised. This is typically determined through a consideration of customer acceptance testing, stage of completion, contract terms and delivery arrangements.

Taxation

The Group operates in a number of countries around the world. Uncertainties exist in relation to the interpretation of complex tax legislation, changes in tax laws and the amount and timing of future taxable income. In some jurisdictions agreeing tax liabilities with local tax authorities can take several years. This could necessitate future adjustments to taxable income and expense already recorded. At the year-end date, tax liabilities and assets are based on management's best judgements around the application of the tax regulations and management's estimate of the future amounts that will be settled.

The Group's operating model involves the cross-border supply of goods into end markets. There is a risk that different tax authorities could seek to assess higher profits (or lower costs) to activities being undertaken in their jurisdiction, potentially leading to higher total tax payable by the Group.

At 31 October 2020 there was a provision of £5.4m in respect of uncertain tax positions. Due to the uncertainties noted above, there is a risk that the Group's judgements are challenged, resulting in a different tax payable or recoverable from the amounts provided. Management estimates that the reasonably possible range of outcomes is between £nil and £5.4m.

The key uncertainties impacting taxation arise from potential changes to legislation such as the OECD's Base Erosion and Profit Shifting ("BEPS") project.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

Provisions

The Group holds provisions where appropriate in respect of future economic outflows which arise due to past events. These are subject to uncertainty in respect of the outcome of future events. Estimates, judgements and assumptions are based on factors including historical experience, the observance of trends in the industries in which the Group operates, and information available from the Group's customers and other external sources. Actual outflows of economic benefit may not occur as anticipated, and estimates may prove to be incorrect, leading to further charges or releases of provisions as circumstances change. The provisions held by the Group as at 31 October 2020 are set out in note 23.

Defined benefit pension scheme

Included in the Group's defined benefit pension scheme's assets is an insurance policy asset that falls under the Level 3 fair value hierarchy category, where inputs for the asset are not based on observable market data. The asset is offset exactly with a corresponding liability for the same value that is included in the defined benefit pension obligation. The complex nature of the valuation of the Level 3 insurance policy asset is subject to estimation uncertainty in relation to the methodology and assumptions used.

Estimation is required in the determination of the discount rate and inflation assumptions underpinning the valuation of the liabilities of the Group's defined benefit pension schemes. There is a range of possible values for each of the actuarial assumptions and small changes in assumptions may have a significant impact on the size of the deficit. Note 30 provides information on the key assumptions and analysis of their sensitivities.

Other non-significant areas that include a degree of estimation uncertainty

While these areas do not present a significant risk resulting in a material adjustment, they are areas of focus for management and include:

Goodwill impairment

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit, and to determine a suitable discount rate in order to calculate present value (see note 11). In reviewing the carrying value of goodwill of the Group's businesses, the Board has considered the separate plans and cash flows of these businesses consistent with the requirements of IAS 36 *Impairment of Assets*. The plans and cash flows of these businesses reflect current and anticipated conditions in the defence industry. The total goodwill intangible asset is set out in note 11, which shows a carrying value of £108.5m at 31 October 2020.

Capitalised development costs

IAS 38 *Intangible Assets* requires that development costs, arising from the application of research findings or other technical knowledge to a plan or design of a new substantially improved product, are capitalised, subject to certain criteria being met. Determining the future cash flows generated by the products in development requires estimates which may differ from the actual outcome. In particular, this can depend on the estimation applied to future milestone events to secure long-term positions on production contracts, for example Programs of Record for the US DoD. The total capitalised development intangible asset is set out in note 12, which shows a carrying value of £29.8m at 31 October 2020. Included in this balance are individually material balances relating to Joint Biological Tactical Detection System (£8.6m), Next Generation Chemical Detector (£12.5m) and Perceive (£4.0m).

Deferred tax assets on tax losses and US interest deductions

The category of deferred tax asset which contains significant estimation uncertainty and which requires management judgement in assessing its recoverability relates to US interest limitations and tax losses carried forward (see note 24).

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



Independent auditor's report to the members of Chemring Group PLC

1. Our opinion is unmodified

We have audited the financial statements of Chemring Group PLC ("the Company") for the year ended 31 October 2020 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated balance sheet, consolidated cash flow statement, parent company balance sheet, parent company statement of comprehensive income, parent company statement of changes in equity, and related notes, including the accounting policies.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 October 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the directors on 17 March 2018. The period of total uninterrupted engagement is for the three financial years ended 31 October 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole		£2.5m (2019: £1.8m)
		4.8% (2019: 5%) of underlying profit before tax, normalised to exclude this year's non-underlying items
Coverage:		89% (2019: 94%) of total profits and losses that made up Group profit before tax including continuing operations only
Key audit matters		
Recurring risks	Revenue recognition	◀▶
	Recoverability of parent company's investments in subsidiaries	◀▶



Independent auditor's report to the members of Chemring Group PLC continued

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	<i>The risk</i>	<i>Our response</i>
Revenue recognition (£402.5m; 2019: £335.2m) Accrued income (£9.5m; 2019: £8.3m) Refer to page 76 (Audit Committee Report), page 143 (accounting policy) and page 110 (financial disclosures).	Revenue cut-off There is a cut-off risk over the existence of goods and services revenue due to pressures on the Group to increase profitability and other key metrics, increasing the risk of fraudulent premature revenue recognition. 'Point in time' contracts require the Group to determine the timing of the satisfaction of the performance obligations. A number of service contracts are recognised 'over time' based on the estimate of the stage of completion of the service. This estimate requires a determination of the future costs to complete the service which is both inherently uncertain and open to manipulation as changes in the estimate directly impact the amount of revenue to be recognised in the current accounting period. As part of our risk assessment for audit planning purposes, we determined that accrued income had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that materiality.	Our procedures included <i>Control design:</i> evaluating controls over the revenue process for sale of goods recognised at a point of time and services delivered over time, including their operating effectiveness; <i>Corroborating terms:</i> comparing the Group's judgement behind the timing of when control transfers to the customer against the customer contract for a sample of 'point in time' contracts. Assessing the Group's assumptions behind the timing of revenue recognition based on percentage of completion including reviewing the sample of 'over time' service contracts to the proportion of revenue recognised relative to the stage of completion; <i>Tests of detail:</i> for the 'point in time' contracts comparing the timing of revenue recognition for a sample of goods revenue transactions in the final month of the accounting period against the point at which control transfers to the customer. For a sample of 'over-time' service contracts assessing the costs incurred and forecasted to assess stage of completion and comparing this to other indicators such as customer certified milestones and settled invoices; <i>Historical comparisons:</i> making enquiries of contract project teams to obtain an understanding of the performance of the project throughout the year and at year end where revenue is recognised 'over time' based on the estimate of percentage of completion. Performing a forecasting accuracy check to challenge the Group's assumptions by comparing the previously forecast costs for a sample of service contracts with the actual results. Considering contract progress after the reporting date to determine if the outturn result had been accurately forecast; and <i>Assessing transparency:</i> assessing the adequacy of the Group's disclosures about the degree of judgement and estimation involved in determining the timing of revenue recognition for 'point in time' and 'over time' revenue accordingly. Our results We found the timing of revenue recognition to be acceptable (2019: acceptable).



2. Key audit matters: our assessment of risks of material misstatement *continued*

	<i>The risk</i>	<i>Our response</i>
Recoverability of parent company's investments in subsidiaries (£634.6m; 2019: £634.6m) Refer to page 76 (Audit Committee Report), page 144 (accounting policy) and page 137 (financial disclosures).	Subjective estimate A history of business combinations results in significant parent company's investments in subsidiaries. The Group identified an impairment indicator; as at the balance sheet date the parent company net assets exceeded the total market capitalisation of the Group. The recoverability of the carrying amount of parent company investments is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the carrying amount of parent company investments had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than materiality.	Our procedures included <i>Extrapolating past forecasting accuracy:</i> assessing four years' historical accuracy of the cash flows forecasting and building comparable variations in forecasting accuracy into our own models that were used to re-perform the valuation: <i>Our sector experience:</i> evaluating assumptions used, in particular those relating to operating cash flow forecasts, when compared with our business understanding; <i>Benchmarking assumptions:</i> benchmarking discount rates (including the underlying assumptions used) against market data, including publicly available analysts' reports and peer comparison using input from our own valuation experts; <i>Sensitivity analysis:</i> performing sensitivity analysis by reviewing the impact of reasonable downward changes to the assumptions noted above; <i>Comparing valuations:</i> comparing the carrying amount of the investments with the expected value of the business based on the Group's market capitalisation and the fair value of the net debt; and <i>Assessing transparency:</i> assessing whether parent company's disclosures about the estimation uncertainty related to the impairment assessment reflected the risks inherent in the recoverability of the parent company's investment in subsidiaries. Our results We found the Group's assessment of the carrying amount of parent company's investment in subsidiaries to be acceptable (2019: acceptable).



Independent auditor's report to the members of Chemring Group PLC continued

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £2.5m (2019: £1.8m), determined with reference to a benchmark of underlying Group profit before tax, normalised to exclude this year's non-underlying items as disclosed in note 3, of which it represents 4.8% (2019: 5%).

Materiality for the parent company financial statements as a whole was set at £1.4m (2019: £1.35m) determined with reference to a benchmark of parent company net assets, of which it represents 0.2% (2019: 0.2%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.125m (2019: £0.09m), in addition to other identified misstatements that warranted reporting on qualitative grounds. We agreed a higher threshold of £0.25m for matters only related to reclassification.

Of the Group's eleven components, we subjected eight trading components and one non-trading component to full scope audits for Group purposes, and one to specified risk-focused audit procedures over fixed assets and inventory. The components for which we performed work other than audits for Group reporting purposes were not individually significant but were included in the scope of our Group reporting work in order to provide further coverage over the Group's results. The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 9% of total Group revenue, 9% of total profits and losses that made up Group profit before tax and 5% of total Group assets is represented by one component. For this residual component we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within this.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved component materiality, which ranged from £0.45m to £1.4m, having regard to the mix of size and risk profile of the Group across the components. The work on eight of the eleven components was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team. The Group team performed procedures on the items excluded from underlying Group profit before tax.

We performed inspection of the work covering key audit matters at all component audit teams performing audit for Group reporting purposes.

Videoconference meetings were held with all component auditors. At these meetings, the Group audit team provided further input into audit risk and strategy, and the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group team was then performed by the component auditors.

4. We have nothing to report on going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- manufacturing facilities safety incidents; and
- the impact of political considerations on defence spending budget cuts.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of CV-19, Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in the accounting policies note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 103 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.



5. We have nothing to report on the other information in the annual report and accounts

The directors are responsible for the other information presented in the annual report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

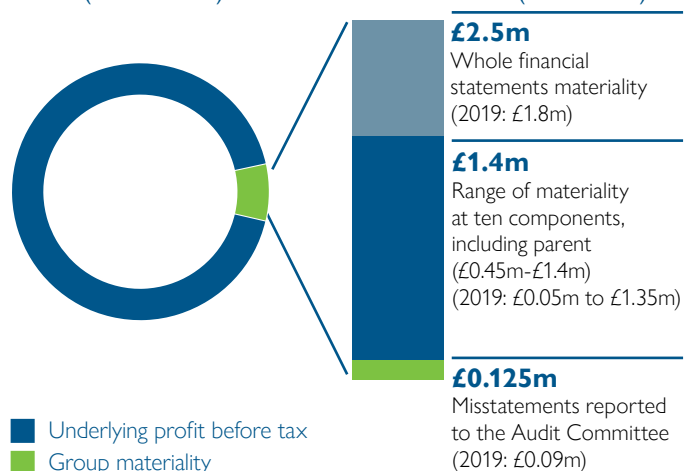
Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the long-term viability statement on page 45 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the principal risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the long-term viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

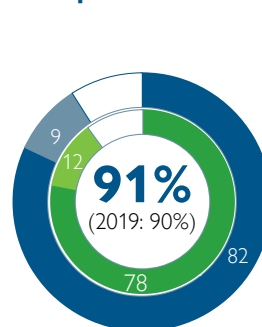
Under the Listing Rules we are required to review the long-term viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

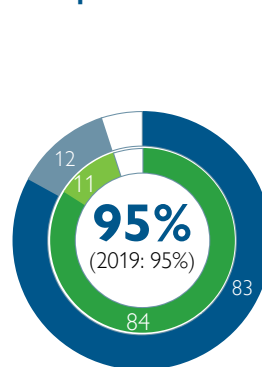
Underlying profit before tax £51.7m (2019: £39.4m)



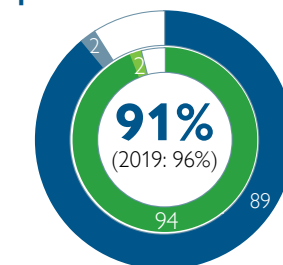
Group revenue



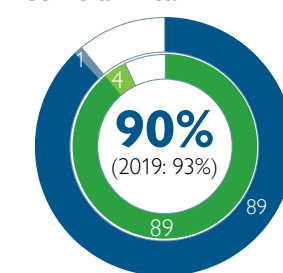
Group total assets



Total profits and losses that made up Group profit before tax*



Total profits and losses that made up Group profit before non-underlying items and tax*



- Full scope for Group audit purposes 2020
- Specified risk-focused audit procedures 2020
- Full scope for Group audit purposes 2019
- Specified risk-focused audit procedures 2019
- Residual components

* In 2020 and 2019 audit coverage has been calculated on the above measures on continuing operations only.



Independent auditor's report to the members of Chemring Group PLC continued

5. We have nothing to report on the other information in the annual report and accounts continued

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the corporate governance statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 104, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licences to operate. We identified the following areas as those most likely to have such an effect: health and safety, and anti-bribery and corruption, recognising the nature of the Group's activities and the Governmental nature of many of Group's customers.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter. Our procedures included examination of legal advice provided from management experts, evaluating directors' and other management estimates of outflow taking into account latest available information, considering the adequacy of the Group's disclosures in respect of associated provisions and contingent liabilities recorded.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.



8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Campbell-Orde (Senior Statutory Auditor)

for and on behalf of KPMG LLP

Statutory Auditor

Chartered Accountants

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15 December 2020



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Find out more online

For more information about Chemring Group PLC, please visit www.chemring.co.uk where the latest shareholder information can be accessed, including:

- Current share price
- Shareholder services and notices
- Analysts' forecasts
- Key financial information
- Corporate governance
- Regulatory news
- Financial calendar
- Results and presentations

Chemring Group PLC's 2020 annual report and accounts and the notice for the Annual General Meeting can also be viewed and downloaded at www.chemring.co.uk/investors.

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