

A copy of the parent consolidated account,
to be filed with the accounts of
CHG - New Sea Limited (02731691) that is
involving an exemption from audit under
Section 479A of the Companies Act 2006.
See page 139 of the parent consolidated account.

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COMPANIES HOUSE

INNOVATING TOGETHER TO PROTECT AND GROW

CHEMRING GROUP PLC ANNUAL REPORT AND ACCOUNTS 2021
REGISTERED NUMBER 86662

OUR PURPOSE

Chemring helps to make the world a safer place. Across physical and digital environments our exceptional teams deliver innovative protective technologies to detect and defeat ever changing threats.

Read more on pages 4 to 9

OUR STRATEGY

Our strategy is to deliver profitable growth by operating in markets where we have differentiators such as niche technology and high barriers to entry.

Read more on pages 26 and 27

TARGET GROWING NICHES

WIN MARKET SHARE

GROW OUR US BUSINESS

VALUES

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.

TO DISCOVER MORE ABOUT CHEMRING PLEASE GO TO WWW.CHEMRING.COM

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2021 PERFORMANCE

FINANCIAL HIGHLIGHTS

REVENUE

£393.3m

(-2%) (+1% at constant currency)

Increase in revenue at constant currency driven by strong performance in the Sensors & Information segment and stable performance in Countermeasures & Energetics.

CASH CONVERSION

105%

(2020: 110%)

Continued strong cash conversion, with an average of 108% on a rolling 24 month basis (2020: 108%), driven by a continued focus on working capital discipline.

-1.6%

UNDERLYING OPERATING PROFIT*

£57.5m

(+5%) (+10% at constant currency)

Reflects the growth of the higher margin Sensors & Information segment as well as the increasing margin in Countermeasures & Energetics through improving operational performance, offset by a foreign currency headwind.

STATUTORY OPERATING PROFIT

£50.4m

(+9%) (+14% at constant currency)

The difference to underlying operating profit reflects the amortisation of acquired intangible assets and acquisition expenses which are the only items treated as non-underlying in 2021.

UNDERLYING OPERATING PROFIT*

GROUP

£57.5m

2021	£57.5m
2020	£54.7m
2019	£44.0m

SENSORS & INFORMATION

£31.6m

2021	£31.6m
2020	£27.4m
2019	£26.3m

Read more on pages 32 to 34

COUNTERMEASURES & ENERGETICS

£40.0m

2021	£40.0m
2020	£39.9m
2019	£27.5m

Read more on pages 35 to 37

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.

2022 OUTLOOK

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

KEY POINTS

- 2021 performance was in line with the Board's expectations with strong performance in both segments, despite an FX translation headwind caused by the 10 cent weakening of the US dollar
- Roke order intake exceeded £100m for the first time, with double digit growth in orders, revenue and operating profit in a positive market
- Successful acquisition and integration of the Cubica Group, performing well since completion in June 2021
- Continued progress in our US Sensors Programs of Record. Further orders received in the year for the next phase of HMDS delivery, valued at \$69m, under the previously announced \$200m IDIQ contract. \$99m EMBD full rate production six-year contract awarded in October 2021
- Sensors & Information underlying operating margin increased from 20.0% to 21.6%
- Countermeasures & Energetics underlying operating margin increased from 15.0% to 16.2% as the UK countermeasures site delivered strong operational and financial performance
- Continued reduction in net debt with strong operating cash generation and cash conversion of 105%. Continued scheduled capital expenditure ahead of depreciation. Net debt to underlying EBITDA of 0.35 times
- New policy to target a medium-term dividend cover of c.2.5 times underlying EPS. Proposed final dividend increased by 23% to 3.2p, giving a total dividend of 4.8p (3.5 times cover)
- Investment in the Group's manufacturing infrastructure continues to be a key enabler to deliver improved safety and operational excellence. TRIF rate was down 21% at 0.67 (2020: 0.85)
- Board's expectations for 2022 are unchanged. Approximately 84% (2020: 78%) of expected 2022 revenue is covered by the order book

* 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 £41.5m (2020: £34.7m). For references to constant currency equivalents of reported numbers please refer to page 60 for further explanation.

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, security and law enforcement 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 advanced customer 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 2021.

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.

EUROPE

14%

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.

US

51%

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.

ASIA PACIFIC

5%

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 Australia and other customers in the Asia Pacific region.

SENSORS & INFORMATION

Innovation is core to solving our clients' difficult problems.

With over 600 scientists, engineers and consultants, our Sensors & Information sector continues to invest in technologies that safeguard and protect in an uncertain world.

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

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

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.

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

REVENUE

£146.6m

(2020: £137.7m)

UNDERLYING OPERATING PROFIT

£31.6m

(2020: £27.4m)

2021	£31.6m
2020	£27.4m
2019	£26.3m

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 achieve mission success. This ranges from cutting-edge technology to enable our customers to launch rockets and satellites into orbit, to the provision of aircraft safety systems including oxygen mask deployment on commercial aircraft and ejector seats for aircrew egress.

REVENUE

£246.7m

(2020: £265.3m)

UNDERLYING OPERATING PROFIT

£40.0m

(2020: £39.9m)

2021	£40.0m
2020	£39.9m
2019	£27.5m

WE'RE PROTECTING... THROUGH DEVELOPING MARKET-LEADING TECHNOLOGIES

Across Chemring, our subject matter experts use our highly specialised facilities to develop and deliver world-leading solutions that protect both the physical and digital environments. Innovation and technology are at the heart of our approach.

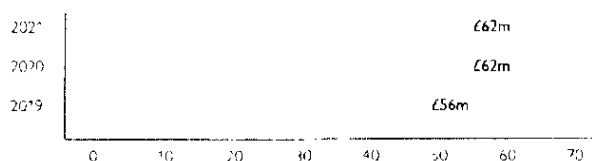
Our expertise and competencies in Sensors & Information make us well placed to respond to our customers' priorities of achieving chemical, biological and cyber resilience and information advantage. Similarly, our technical know-how and manufacturing capabilities in Countermeasures & Energetics underpin the development and delivery of products that can defeat the latest threats to our customers' airborne and naval platforms and meet their demanding requirements for precision high energy solutions.

In our Sensors & Information sector, Chemring Sensors & Electronic Systems ("CSES") is developing innovative solutions based upon next generation sensor capabilities, including integrating sensors onto unmanned platforms for vapour, liquid, solid and explosive hazard detection. This use of unmanned systems minimises the direct risk to the personnel involved. CSES's other innovations include sensor technologies for standoff detection and identification, which enable the contactless detection of chemical and biological threats, thereby avoiding the possibility of contamination for operators and their equipment.

Roke is also following the customer mission by rapidly producing new end-to-end capability solutions, right through from initial event detection to taking the operational decision. This transformative work contributes to our customers achieving digital superiority, which enables them to manoeuvre whilst constraining the manoeuvrability of the adversary and can include Roke's expertise in machine augmented intelligence and automation where the human operator is supported by artificial intelligence technology that increases effectiveness and continually learns.

In our Countermeasures & Energetics sector, we have deep technical expertise in high-hazard engineering and manufacturing. We are protecting our leadership position by focusing on facility modernisation, automation and operational excellence. Our Countermeasures & Energetics businesses work closely with our customers to ensure that we have a detailed understanding of their evolving requirements to inform the development of solutions that can form the basis of future integrated threat protection systems. For example, in our energetics businesses Chemring Energetic Devices ("CED") is exploring next generation digital technology for the missiles and space market where technology evolution is rapid, and in Chemring Energetics UK ("CEUK"), we are assessing candidate materials and manufacturing processes for next-generation solutions.

TOTAL RESEARCH AND DEVELOPMENT SPEND



OUR PURPOSE IN ACTION

During the year Chemring acquired Cubica Technology Limited and Q6 Holdings Limited, collectively the "Cubica Group". Q6 owns 80% of the issued shares of Vigil AI Limited ("Vigil AI"), which has technology providing state-of-the-art solutions to enable online platforms to detect imagery relating to child sexual exploitation globally. The acquisition of the Cubica Group significantly improves our ability to develop effective user-driven capabilities, at pace and scale, so that customers can anticipate and manage new and emerging threats and risks.

Our products and services are underpinned by our rich intellectual property. Cubica's in-depth technical expertise and creativity in machine learning, artificial intelligence and data fusion will be shared and leveraged across our business to protect and grow our positions in defence, national security and commercial sectors in the UK and abroad. As part of our technology-based strategy, Roke will continue to prioritise and invest in advanced scientific research and innovation that drives commercial value, strengthening our ability to attract and retain the best talent.

Cubica's autonomy and Sensing for Asset Protection with Integrated Electronic Networked Technology ("SAPIENT") related technology, with support from external and internal investment, will accelerate digital transformation across the armed forces, automating the control of unmanned intelligence, surveillance, target acquisition, and reconnaissance ("STAR") assets such as unmanned aerial vehicles ("UAVs") and ground robots. Wider applications of this technology include internal security markets such as oil and gas pipeline protection and critical national infrastructure protection.

"Tackling harmful content and activity online remains a key priority in the UK and worldwide. Cubica and Vigil AI's ground-breaking work in the digital policing and internet policing domain means we are well positioned to capitalise on opportunities with a number of high-profile programmes."

Paul MacGregor, Roke Managing Director

WE'RE PROTECTING... BY INVESTING IN OUR PEOPLE

Chemring people are at the heart of our business. Engaged, motivated, empowered and appropriately skilled colleagues are integral to our success – both individually and collectively.

The COVID-19 ("CV-19") crisis continues to impact on our colleagues, their families and our communities both inside and outside of Chemring and our ongoing support for all our stakeholders has never been more important. Our mission is to ensure that all our colleagues are able to enjoy a safe, inclusive, collaborative environment, where every individual has the opportunity to grow and develop and contribute to the development and success of the business. Using our mantra of Innovating to Protect, we have looked at different ways we can both protect our colleagues and also help them develop. Investing in developing our people drives our ability to innovate for our customers.

Our investment in our people spans all levels and roles, from apprentices starting out on their career, to veterans moving to civilian life, operations colleagues taking their first steps into management roles, and senior colleagues taking on the challenge of a different role or a new location. Our ethos is to ensure that we identify and nurture the capabilities and ambitions we need to support our Chemring business now and for the future. Our colleagues are diverse, ambitious and invested in our purpose. We are committed to ensuring that we continue to support the identification, attraction, hiring, development and promotion of all talent. Our continued focus on diversity, equity and inclusion supports us in ensuring we harness all available talent regardless of race, gender, sexual orientation or neurodiversity. This is an area where we continue to develop both globally and locally and which will be central to our success in the coming years.

Our purpose of Innovating to Protect goes far beyond our products and services to our customers. Protecting our colleagues and being innovative in our approach to supporting and developing our people are core to our business. Here are some examples of how we are putting that into action.

OUR PURPOSE IN ACTION

THE CED CHICAGO COHORTS

The Chemring Energetic Devices ("CED") team in Chicago is one of the first cohorts to complete a full year of the Leading our People development programme. While a global programme, the content and delivery are localised to suit specific requirements, global voice, and local accent. Colleagues participating in the programme receive training in six core topics to support their development as effective managers and leaders.

"Each month had a different topic such as health and safety policies, employee engagement, and coaching and talent retention. The main benefit of the programme to me was getting new perspectives from my peers within the programme. Also, I gained a better understanding of working together with those people to accomplish specific goals and add more value to the business. Leading our People is now live in every part of the business – one of the first initiatives of its kind at Chemring."

Jonathan Cerpa, Production Manager at CED, who participated in the first programme roll-out

OUR PURPOSE IN ACTION

REAL-TIME EMPLOYEE ENGAGEMENT MEASUREMENT

Chemring recognised that an essential part of our cultural journey and strive for operational excellence was the need to measure progress, obstacles and milestones as the transformation progressed. Working with a specialist supplier, a new employee engagement platform was born, taking the Chemring-specific cultural blueprint and mapping it directly into a digital platform.

The digital platform, called Employee Voice, provides real time, continuous metrics, analysis and insights across all geographies, business units and employee groups. In doing so, Chemring has instant answers to the relevant what, where, who and why questions and can offer data-supported input to local management teams on what is going well and what might need alternative interventions or additional support.

Employee Voice provides up-to-the minute rich data and a snapshot of what is happening across the Company at any time, a valuable tool in our drive for operational excellence.

“Having real-time insights into how colleagues are feeling has been incredibly useful. For example, when we introduced new safety measures on campus, we had instant feedback from colleagues as to how they felt about these as well as suggestions for what else we should consider.”

Sarah-Jayne Richardson, HR Director, Roke

WE'RE PROTECTING... BY LIVING OUR VALUES

Every day our people live, breathe and demonstrate our brand values in everything they do.

Whether working on protecting national security infrastructure, testing components for missions into space or protecting our people from harm with health and safety, everyone has a critical role to play.

We are proud of the work our people do and the way they shine with our brand values of Safety, Excellence and Innovation.

SAFETY

OUR JOURNEY TO ZERO HARM

As one of our core values, safety is at the heart of everything we do at Chemring. We believe that all injuries are preventable and that everyone should be able to go home safely at the end of every working day. Our approach is to establish a strong, proactive safety culture through the interaction between people, plant and process. This is called our Journey to Zero Harm.

Our Journey to Zero Harm is about identifying and taking further actions to reduce the likelihood of anyone getting hurt by focusing on people, plant and process. For plant, we are regularly reviewing and strengthening the integrity of our assets. For process, we are investing in new automated production systems and improving our processes. For people, that is where our safety culture comes in and the part all our colleagues play in making sure we operate in safe conditions using safe behaviours.

During the year, we launched a new internal campaign called Spot it, Stop it, Share it, encouraging our colleagues to step up their focus on reporting unsafe conditions, behaviours and near misses. Following up those near miss reports with corrective actions is essential, and that is where leadership and the health and safety teams on site make a real difference.

We need a strong safety culture in Chemring, and we will continue to build on that as we journey to zero harm, ensuring we protect our employees every step of the way.

"My primary role is to ensure that all of the sites and the businesses across Chemring have the support they need so we can ensure people return home safely to their families, their friends and their loved ones every single day."

Steve Messam, Group HSE Director

EXCELLENCE

REINSTATE PROJECT

Roke was chosen as a key technology partner on the REINSTATE project, led by Rolls-Royce, to accelerate the delivery of future aerospace servicing capabilities.

Work on the project is supported by the UK Government's ATI Programme, which provides funding for research and development, and will continue for the next three years. The programme is also supported by other SMEs and a number of UK universities.

Roke engineers will lead on the development of smart algorithms that use data from engine installed inspection sensors to analyse and provide rapid in-service diagnostics. Key benefits will include increased availability of aircraft and reduced through-life expense.

This project builds on the success of another Innovate UK supported programme, INSPECT, in which Rolls-Royce and its partners developed a novel optical inspection solution to support the Intelligent Engine vision. Roke helped to deliver this project, developing inspection algorithms to enable probes to inspect engine components automatically every time an aircraft lands.

These initiatives, collectively, look to meet the complex needs of the sector, and make the UK a competitive centre for the global aerospace industry.

INNOVATION

CHEMRING COMPONENTS REACH MARS

At 14:55 CST on 18 February 2021, the NASA Mars Perseverance Rover touched down on Jezero Crater, Mars.

Chemring Energetic Devices ("CED") was proud to have supplied this historic mission and incredible feat of engineering with a number of critical, innovative components. NASA integrated 179 NASA Standard Initiators ("NSIs") and 54 other CED devices onto the Mars Perseverance Rover. The components were designed, built, and tested by CED, in a culmination of years of innovation, dedication and teamwork.

The final descent from the Martian atmosphere to the surface is commonly referred to as the "seven minutes of terror". Success hinges on a complex sequence of events unfolding without a hitch, from the inflation of a giant, supersonic parachute to the deployment of a jet-powered "sky crane". This is where the majority of CED's components were integrated, all of which executed flawlessly during the mission.

The Rover, which weighs 2,260lbs and is 10ft long, will spend the next two years collecting and caching samples from the Mars ecosystem, seeking signs of past microbial life and studying Mars' potential habitability.

CED has been the sole source provider for NSIs, and CED's hardware has been on every single Mars Rover that NASA has sent to the Red Planet.

INVESTING IN SUSTAINABLE PERFORMANCE AND GROWTH

Over the past three years considerable progress has been made in building a higher quality technology-based business.

In 2020 Chemring completed the sale of its commoditised energetics businesses. In doing so, the Group retired significant operational and reputational risk and repositioned the Group around a common purpose – helping to make the world a safer place. Across physical and digital environments, Chemring's exceptional teams deliver innovative protective technologies to detect and defeat ever-changing threats. These actions have been enhanced by a focus on embedding a culture of safety and continuous improvement across the Group.

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 around the world. Chemring's long-term prospects remain strong and are underpinned by a number of opportunities to drive future growth in revenues, profit and cash flows. These include:

WELL POSITIONED IN NICHE SEGMENTS

Against the background of stable 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. In a post-pandemic world, Chemring's experience in biological detection also presents further opportunity as biological security becomes increasingly important.

STRONG GROWTH IN ROKE'S NATIONAL SECURITY AND DEFENCE MARKETS

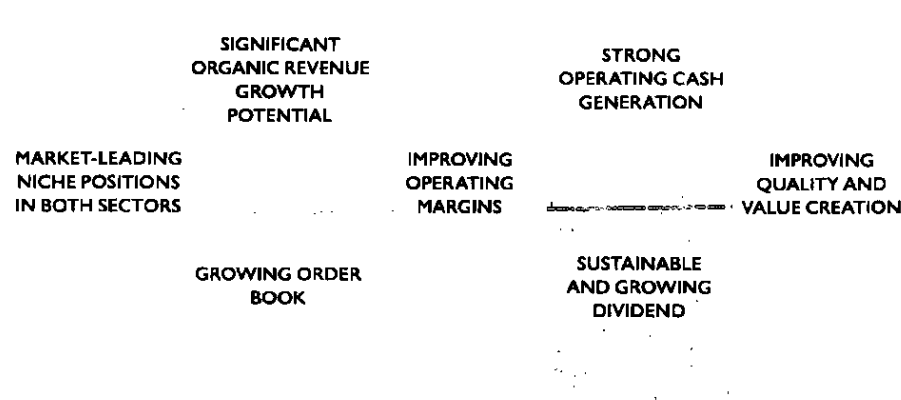
Roke's consulting, technology and R&D service activities are experiencing strong growth, driven principally by information security for the national security and defence markets.

The Group's capabilities are well aligned to both the US and UK Government's emphasis on cyber-security, active cyber effects, secure networks, secure cloud, artificial intelligence, data science and autonomy. This validates our Sensors & Information segment strategy, and should increase the opportunity space for Roke to deploy its market-leading technologies.

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.

The acquisition of the Cubica Group demonstrates our ability to identify suitable acquisition opportunities to enhance and accelerate Roke's technology base and growth potential.

OPPORTUNITIES PIPELINE



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 few 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.

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, growing 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.

DELIVERING LONG-TERM SUSTAINABLE GROWTH

Carl-Peter Forster
Chairman

"In a year in which we have continued to operate under the restrictions resulting from the CV-19 pandemic, it is again pleasing to report on the progress that the Group has made on all fronts during 2021."

The actions taken in recent years to build a stronger, higher quality business are clearly demonstrated, both in the Group's financial performance, and in the progress made on our path to long-term sustainable growth.

BUILDING FOR A BETTER FUTURE

At Chemring we are fully committed to long-term sustainable value creation through safe, sound and ethical business conduct at all times at all of our locations. None of this would be possible without the commitment and dedication of our people who have continued to adapt their behaviour and working practices, ensuring that we meet our customers' critical needs whilst performing to the highest standards.

Despite the challenges brought about by the ever-changing environment the Group has once again delivered a strong performance that was in line with our expectations. On behalf of the Board, I wish to acknowledge the professionalism and loyalty of all our colleagues, at every level, across Chemring, and we thank them and their families for their ongoing support.

PURPOSE AND STRATEGY

Chemring's purpose is to help make the world a safer place. Across physical and digital environments, our exceptional teams deliver innovative protective technologies to detect and defeat ever-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 sustainable, 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.

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, constantly innovating to enable our customers to deliver competitive advantage and to defend their people, assets and information.

The Countermasures & Energetics sector strategy continues to be one of strengthening and protecting our niche, 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.

Read more on pages 26 and 27

As a Board we remain open to accelerating our growth opportunities through selective acquisitions that meet a strict set of criteria, enhance shareholder value and fit in with our wider growth plans. This activity is principally focused on the Sensors & Information sector where we see greatest opportunities for long-term growth.

Elsewhere we will continue to focus our efforts 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.

HEALTH, SAFETY AND THE ENVIRONMENT

At Chemring our goal is zero harm. This goes beyond the management of safety and recognises that we have a duty to ensure that we take appropriate actions to minimise the impact of our operations on many different levels, from employee wellbeing to climate change.

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 one of the core values within Chemring and is central to our operating philosophy. A key part of our health, safety and environmental ("HSE") strategy is the collection and analysis of data at every level to focus on the underlying causes of incidents and the impact of our operations. This facilitates appropriate decision making at all levels of our organisation.

In addition, we are extending our current data platform to better assess the environmental impact of our operations and the targets we need to set in support of our wider sustainability commitments. Improving our sustainability performance plays a key role in the way we both run our businesses today, and how we plan for the future. Further details on this can be found in the sustainability section of this report.

Whilst working towards creating a more productive culture, we are also keen to ensure that we understand and learn more from any incident. To date good progress has been made on our journey to become a high reliability organisation.

Read more on pages 43 to 48

PEOPLE AND OUR COMMUNITY

Chemring people are at the heart of our business and they are our greatest asset. Engaged, motivated, empowered and appropriately skilled colleagues are integral to our success as it is through them that we will progress our strategy and deliver long-term growth.

In 2021 we have continued to build on the progress made in developing the Chemring culture with actions delivered both within the individual business units and globally to ensure Chemring colleagues are able to do their best work every day.

Despite the challenges of the pandemic, we have continued our focus on developing our people. The Leading our People development programme which was launched for all line managers globally in 2020 continued throughout 2021 with tailored support being provided as the challenges of leadership changed through the pandemic. We also developed a formal Early Careers development programme in the UK for all new graduates and apprentices joining in autumn 2021. This programme, which runs alongside the business unit programmes, provides early leadership and people skills development and the opportunity for building a network across the business units of this key group.

Finally, 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. Laurie was able to hear directly from these groups their views on working at Chemring, as well as being able to share with them the work of the Board. These groups included colleagues at all levels from operators to the senior leadership teams at Chemring Counter Measures UK and Rock, as well as at CSES in the US. The groups Laurie met were overwhelmingly positive about their experiences of working at Chemring throughout the pandemic, and pointed to many examples of support from the Group during the year. Laurie also gathered input as to how we can continue to develop, and colleagues provided clear and constructive input on areas such as enhancing cross business collaboration which are being acted on.

Read more on pages 49 to 53

GOVERNANCE AND ETHICS

We continue to strengthen our policies and procedures across the Group to ensure that our businesses operate with integrity and transparency and to the highest ethical standards. We have also maintained our focus on creating an inclusive culture across the Group where everyone does the right thing and takes personal responsibility for their actions.

The bedrock of our governance is our Code of Conduct and our Operational Framework, both of which bind our purpose, values, behaviour policies and procedures, and provide the necessary governance to enable us to operate in a safe, consistent and accountable way. Our Ethics & Compliance Committee, which meets regularly throughout the year and is chaired by me, is responsible for the oversight and monitoring

of Chemring's governance framework and ethical business conduct and compliance. Further details on the Committee's activities during the year can be found on page 54 of this report.

Good governance and ethical behaviour underpin our evolving sustainability agenda and ensure that we operate safely, responsibly and in compliance with applicable legislation in all of the jurisdictions in which we operate.

DIVIDENDS

The Board continues to recognise that dividends are an important component of total shareholder returns. The Board's objective is for a growing and sustainable dividend and now believes it is appropriate for the Group to target a medium term dividend cover of c.2.5 times underlying EPS, subject *inter alia* to maintaining a strong financial position.

The Board is recommending a final dividend in respect of the year ended 31 October 2021 of 3.25p (2020: 2.6p) per ordinary share. With the interim dividend of 1.6p per share (2020: 1.3p), this results in a total dividend of 4.8p (2020: 3.9p) per share, an increase of 23% on the prior year if approved, the final dividend will be paid on 31 March 2022 to shareholders on the register on 11 March 2022. In accordance with accounting standards, this final dividend has not been recorded as a liability as at 31 October 2021.

BOARD OF DIRECTORS

Stephen King, Chairman of the Audit Committee, accepted a second three-year appointment as a non-executive director in November 2021. Andrew Davies and I will complete our second three-year terms as non-executive directors in April 2022 and May 2022 respectively and we have both accepted the Board's offer to take up a third and final three-year appointment.

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 2022 performance are unchanged, with the balance of its trading performance in 2022 expected to be similar to 2021 with a slight bias towards the second half of the financial year.

The Group order book as at 31 October 2021 was £501m, of which £358m is currently expected to be recognised as revenue in 2022, giving excellent visibility for the full year.

Whilst there may be some macro-economic uncertainty surrounding the level and timing of defence spending as a result of the CV-19 pandemic, our multiple market-leading positions across different geographies and sectors, together with our investment in high technology niches, provide attractive long-term growth opportunities. This, together with the Group's strong balance sheet, gives the Board confidence that Chemring's long-term prospects remain strong.

Carl-Peter Forster

Chairman

14 December 2021

CREATING SUSTAINABLE VALUE AND OPPORTUNITY FOR ALL OUR STAKEHOLDERS

Michael Ord
Group Chief Executive

"The focus that we have placed in recent years on building a higher quality technology-based business has resulted in another period of strong operational and financial performance. Chemring is now a stronger business with increasing opportunities for development and growth."

INTRODUCTION

Despite the many challenges that we have continued to face as a consequence of the CV-19 pandemic, the strength and resilience of both our operating model and our people have enabled us to deliver in support of our customers and their critical needs. Once again, the response of our people and their families has been outstanding and this collective effort has delivered results for the year that were in line with our expectations.

The Group is now well positioned with a robust strategy and relentless focus on safety, operational excellence and growth.

HEALTH AND 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 as we have continued to operate under the restrictions caused by CV-19.

Whilst the pandemic has placed additional burden on every business with the need to implement and adhere to strict guidelines in order to maintain a safe environment, we have delivered good progress in line with our broader HSE strategy. We continue to focus our efforts across the areas of control of major accident hazards, injury reduction and HSE risk management. Alongside this we will ensure that we focus on the right skills, tools, processes and that support is in place at every level and for all employees across the business.

Our focus on injury prevention continues to place more emphasis on safety measures for people working from home and their mental and emotional wellbeing, and is now supported by the newly formed 'Healthy Workplace Committee'.

In 2021 our total recordable injury frequency rate was 0.67 compared to 0.85 in 2020 - a decrease of 21%.

TOTAL RECORDABLE INJURY FREQUENCY RATE

-21%

2021	0.67
2020	0.85

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

At Chemring our purpose is to help make the world a safer place, delivering innovative protective technologies to detect and defeat ever-changing threats. Our commitment to protection goes beyond our customers. It embraces many different stakeholders including our people and our suppliers, and it recognises the need for us to contribute towards a sustainable future.

From an ESG perspective 2020 was a baseline year for Chemring where we focused our efforts on gaining a better understanding of our data, identifying gaps with prior knowledge, completing the reshaping of the portfolio to focus on protective technologies and putting in place the infrastructure and governance to effectively manage our sustainability agenda.

We continued to build on this progress in 2021 with the overriding goal of elevating our ESG related activity.

A crucial first step in this, and a priority goal for the year, was to undertake a materiality assessment to identify the areas of greatest concern to our stakeholders, and to identify those areas and activities where our actions could have greatest positive impact.

The materiality assessment process identified the most significant environmental, social and governance topics, both risks and opportunities, and ranked them according to feedback from a selection of stakeholders including customers, suppliers, employees and investors. Key focus areas included health and safety, diversity and inclusion, reducing climate change, and employee wellbeing.

In addition to the materiality exercise we conducted a mapping exercise to consider the alignment of the organisation to the United Nations Sustainable Development Goals ("UN SDGs") and assess the opportunities to measure and manage Chemring's contribution to the UN SDGs going forward.

Both exercises have been fundamental to enabling us to set appropriate near and longer term targets, against which our progress can be measured. These include our commitment to reduce our direct (scope 1) and indirect (scope 2) emissions year on year, to be carbon neutral by 2030 (scope 1 and 2), and net zero by 2050. Our broader sustainability goals and near term targets, including our commitment to greater diversity and representation, are disclosed in greater detail in the sustainability section of this report.

To facilitate and ensure a consistent approach to sustainability across all our businesses, a Group Sustainability Committee was formed during the year. The Committee, which is chaired by the Board director responsible for sustainability across the Group, consists of members of the Group's Executive Committee with responsibility for health and safety, environmental impact, people, ethics and business conduct, supported by internal subject matter experts. The Committee will shape and monitor the implementation of our sustainability agenda and ensure that the Group continues to make progress in the future.

As a business we are committed to building a sustainable company of which all our stakeholders can be proud, both now and in the future.

2021 PERFORMANCE

It is pleasing to report a strong set of results for the financial year despite the uncertainty and disruption caused by COVID-19. This performance, which was in line with the Board's expectations, demonstrated good progress against our strategic goal of balancing short-term performance with longer-term value creation.

Revenue was down 2% to £393.3m (2020: £402.5m). Underlying operating profit was up 5% to £57.5m (2020: £54.7m) and statutory profit before tax was up 1.8% to £48.8m (2020: £43.3m). Underlying earnings per share was up 12% to 16.9p (2020: 15.1p).

The US dollar weakened in the year with the average exchange rate to sterling increasing from \$1.28 to \$1.38, resulting in a significant headwind as 53% of the Group's revenue was US dollar denominated (2020: 54%). On a constant currency basis the Group's revenue was up 1% to £408.0m, underlying operating profit was up 10% to £60.1m and underlying earnings per share was up 17% to 17.7p.

The underlying operating profit from continuing operations of £57.5m (2020: £54.7m) resulted in an underlying operating margin of 14.6% (2020: 13.6%). The increase in margin reflects the impact of double digit revenue growth at the high margin Roke information security business and the focus on improved operational performance at the UK countermeasures site.

The strategic goal for our Roke business was to focus on growth across all business areas in the UK, and leverage international markets, especially the US, to give Roke a wider international presence.

Roke performed in line with our expectations and again delivered double digit growth in orders, revenue and underlying operating profit, and maintained strong margins despite increased investment in people, infrastructure and product development.

The markets for electronic warfare ("EW"), cybersecurity and data science capabilities, in which Roke is a leading participant, continue to be buoyant. In order to align with customer needs we opened a Roke office in the North West of England to align with customers establishing a hub for national security in that area. This also aligned with Roke's strategy to grow talent and develop new hubs across the UK.

The acquisition of the Cubica Group in June 2021 was an excellent strategic and cultural fit for Roke. It offers leading edge capability in machine augmented intelligence and autonomy, where Roke's customers require an exponential increase in capability to achieve digital advantage against complex threats. Roke plans to invest c.£1m in Cubica to support accelerated growth.

We are increasingly focusing our efforts within the US market through Roke USA Inc. Following the first EW order to the US Department of Defense ("US DoD") that was secured in 2020, Roke USA has continued 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.

Also in the US our sensors business continued its strategic focus on building winning solutions to convert current US Programs of Record into low rate and full rate production, and on investing in modifying existing technologies to enable them to be deployed on a wider number of platforms including autonomous ground and air systems.

GROUP CHIEF EXECUTIVE'S REVIEW continued

2021 PERFORMANCE continued

The US DoD's explosive hazard detection Husky Mounted Detection System ("HMDS") program, which encompasses concurrent development and manufacturing, continues to progress as expected. Further delivery orders of \$69m were received during the year under the previously awarded \$200m IDIQ contract, providing visibility on this Program of Record well into FY22. The production phase is progressing as planned and customer deliveries were made on schedule throughout the year.

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

The sole source Joint Biological Tactical Detection System ("JBIDS") program is progressing as planned through the engineering and manufacturing development ("EMD") phase and a customer procurement decision is expected in FY22.

The second biologic program is the enhanced Maritime Biological Detection System ("MBDS"), an automated sensor system to rapidly detect, collect and identify airborne biological warfare agents, where the customer is the US DoD. In October 2021, following the successful completion of the low rate initial production ("LRIP") contract that was awarded in May 2020, the US DoD approved and awarded a full rate production contract. The value of this sole source framework contract is up to \$99m with an estimated completion date of December 2027. An initial delivery order of \$16m will see deliveries being made in the final quarter of FY22 and FY23.

The Aerosol and Vapor Chemical Agent Detector program ("AVCAD") is also progressing through its EMD phase. The next customer procurement decision point is still expected to be at the conclusion of the EMD phase in FY22. Chemring remains one of two contractors currently selected for this competitive program, expected to be worth up to \$800m.

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

We will continue to actively explore opportunities to expand and accelerate the Sensors & Information sector capabilities and offerings, both by leveraging opportunities in adjacent markets and through further position acquisitions.

In FY21 the focus for our Countermeasures & Energetics sector was to continue the process of modernisation and automation, and improving its competitiveness through investment in lean manufacturing capabilities.

The investment in the expansion and automation of our Tennessee facility to meet the US DoD's expected demand for countermeasures has continued during the year. Construction work of buildings was completed and despite a delay in the supply of complex manufacturing equipment to site due to suppliers being impacted by COVID-19, the new facility began its commissioning process in October 2021. During the year £6m was spent on the facility, bringing the total spend to date to £43m. The expected total cost of the programme remains approximately £50m. The facility will now go through a period of commissioning and testing as production gradually ramps up. We expect to generate revenue from the new facility in the second half of 2022.

The specialised and niche nature of our energetic devices products was demonstrated in February 2021 when the Perseverance Rover landed on the surface of Mars with 233 Chemring devices on board the mission. These were designed, developed and manufactured at our Chicago facility and were all critical to the success of the mission.

Following the change of administration in the US and the continuation of COVID-19 working restrictions, the process of doing business with some government departments has, on occasion, slowed and has resulted in some Countermeasures & Energetics orders being delayed.

Nonetheless, during the year Chemring Countermeasures USA received multiple orders totalling \$111m, including a five year IDIQ contract for the supply of M206 and MJU 7A/B infra red decoy flares. Deliveries under these contracts started in 2021 and will run through to 2024 giving improved visibility and strengthening our positions in key markets.

In the UK, Chemring Energetics secured a long-term partnering agreement with Martin Baker Aircraft Company. This 15-year agreement will see Chemring supply propellants and pyro-mechanical devices for use in a wide range of Martin Baker's ejection seats (including those on the F35) and is valued at up to £160m.

The future focus for the Countermeasures & Energetics sector remains on safeguarding and growing the Group's market-leading positions in niche markets through the modernisation and automation of our sites, and improving our competitiveness through investment in lean manufacturing capabilities. We will also invest in new product development to ensure that our product portfolio remains highly relevant to our customers and will continue the process of operational alignment to share technology and manufacturing excellence across the Group.

The Group's order book at 31 October 2021 was £501m (2020: £476m), of which approximately £358m is scheduled for delivery during 2022, representing cover of approximately 84% (2020: 78%) of expected 2022 revenue. The increase since 31 October 2020 is attributable to strong order intake at Roxo which extended £100m for the first time in its history. On a constant currency basis using the 2020 closing exchange rates the order book would be £514m.

This leaves £143m of the order book to be delivered in FY23 and beyond. At this stage, this provides approximately 25% cover of expected FY23 revenue.

Net debt at the year end was £26.6m (2020: £48.2m); operating cash inflow of £80.0m (2020: £82.4m) represented 105% (2020: 110%) of EBITDA. Our two-year rolling average cash conversion has been 108% (2020: 108%), showing that the ongoing focus on working capital improvements is delivering long-term, sustainable positive results.

CULTURE

Our success is built by our people and much of this depends on having the right people, in the right place, at the right time. This is achieved through a balance of effective recruitment, opportunities for development, great managers, and a productive and inspiring culture. The Chemring culture must ensure that all our colleagues are able to enjoy a safe, inclusive, collaborative environment, where every individual has the opportunity to grow and develop and contribute to the development and success of the business.

Our investment in nurturing a culture built on our core values of Safety, Excellence and Innovation, which started with a full review in every part of the business in early 2019, is now embedded in every part of the business. However, there is still work to do and we continue to review and enhance our approach to how best to focus on developing an inclusive, respectful and diverse culture.

The impact of the COVID-19 pandemic has been felt in many parts of the business and the ability to bring colleagues together in person has been significantly impacted. Similarly, the opportunity to meet with customers and to meet third parties at our locations has been reduced with the primary requirement to keep our colleagues, communities and families safe. As restrictions ease the opportunity to interact and collaborate in real time provides the opportunity for more work to be done in support of the cultural journey.

Making sure that we have an appropriately diverse pool of talent within the organisation is a key enabler and our wider focus on diversity, equity and inclusion has further developed this year. The establishment of a strategy and framework of activity to ensure progress towards this important cultural and behavioural element has been a key milestone in 2021. Starting with ensuring corporate and personal awareness of the importance of a diverse population, an inclusive culture and systems that help support equality and drive equity, a programme of workshops is now in place for all our senior leaders and managers. This will continue through 2022 when a programme of mentoring and sponsorship for less well represented populations within the Group will commence.

We will continue to focus throughout 2022 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 being another challenging year in which we have continued to operate under the restrictions of COVID-19, I am delighted with the financial and operational progress that has been made across Chemring. We have continued the process of transformation that was launched in 2019 as we build a stronger, higher quality and technology focused business. We maintain our relentless focus on safety and on living our shared values of Safety, Excellence and Innovation. In doing so we are driving our collective purpose, delivering innovative protective technologies to help make the world a safer place.

I would like to thank all my colleagues across Chemring for their determination, hard work and support. The progress made over the past few years would not have been possible without their collective efforts.

With market-leading innovative technologies and services that are critical to our customers, our niche market positions and our strong balance sheet, I look to the future with excitement and confidence in our continued success.

Michael Ord
Group Chief Executive
14 December 2021

TRANSFORMATION OF THE YEAR AWARD, 2020 WINNER

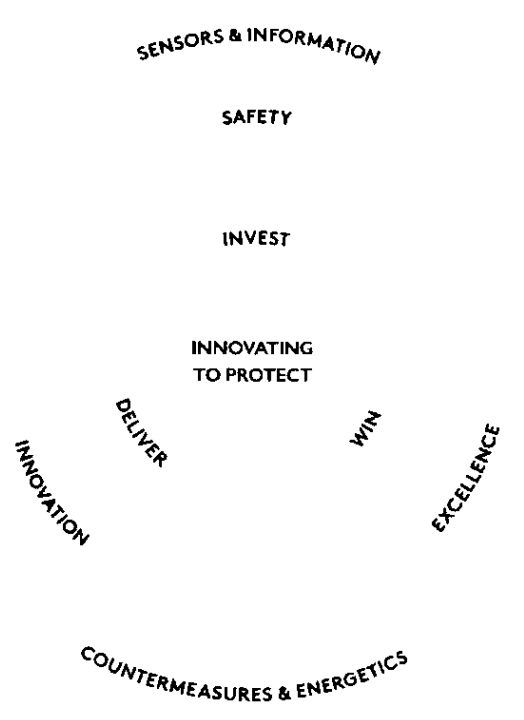
In September 2021 Chemring was delighted to receive the Transformation of the Year Award at the annual PLC Awards.

This award recognises companies that have transformed themselves during the period under review in a way likely to substantially improve the business and offer the prospect of long term value, while considering the impact on its various stakeholders.

The voting panel looked for companies whose prospects have been transformed, with a focus on revenue visibility, increased profitability, improved governance, stakeholder accountability and sustainable financial results.

CREATING VALUE

We focus on providing innovative capability solutions that reliably meet our customer requirements on time, and every time.

WHAT WE DO	KEY STRENGTHS	
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.	EMPLOYEES We have a highly skilled and knowledgeable workforce operating in specialist capability areas.	SUPPLIER COLLABORATION Key partnerships with our suppliers to enhance customer value.
WIN ORDERS We operate in niche segments of the international defence and security market. Our focused investments ensure we are competitively positioned to offer advanced and dependable 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 performance and superiority of our products. In Sensors & Information, we maintain our technological leadership to meet ever more demanding customer requirements.	CUSTOMER RELATIONSHIPS We have long term, high-quality relationships in "Five Eyes" (the US, the UK, Canada, Australia and New Zealand) defence and intelligence markets and opportunity-specific relationships in selected other markets where we can apply our capabilities.	FACILITIES We are investing in our facilities, including increasing automation to deliver our products safely, securely and efficiently.
DELIVER SOLUTIONS We focus on providing innovative and competitive solutions that meet our customer requirements efficiently and on time. In addition to our capital and technology investments, we also invest in continuous improvement - a key element of minimising the cycle time from order to delivery.	 Our sectors Our values Our strengths	

OUR VALUES

SAFETY

We prioritise safety in everything we do.

- We ensure we operate safely and manage risk.
- We promote best safety practices across our operations and beyond.
- We are committed to ensuring we minimise our impact on the environment.

EXCELLENCE

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

- A culture of continuous improvement is core to our approach.
- We act to ensure that we maintain and deliver operational excellence.
- We always deliver on our promises.

INNOVATION

We create innovative solutions to our customers' challenges.

- We inspire imaginative solutions.
- We work together to turn ideas into technologies and solutions.
- We value collaboration and sharing experience.

OUTCOMES

INVESTMENT

Our investment in property, plant and equipment in the year totalled £26.9m. In addition, we invested £62.0m in product development, of which £51.4m 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

£88.9m

(2020: £99.9m)

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 2021, the conversion ratio was 105% reflecting strong operating cash generation and the continued focus on managing working capital.

UNDERLYING CASH CONVERSION

105%

(2020: 110%)

DIVIDENDS

For the year ended 31 October 2021, our dividend will be 4.8p per share (2020: 3.9p), an increase of 23% on the prior year, subject to the approval of the final dividend at the Annual General Meeting.

DIVIDEND

4.8p

(+23%)

STAKEHOLDER VALUE

CUSTOMERS

We provide innovative solutions to satisfy our customers' requirements.

INVESTORS

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

EMPLOYEES

We provide development opportunities and a safe, stimulating and rewarding working environment for all of our employees.

SUPPLIERS

We form strong relationships with our suppliers who partner with us to deliver innovative solutions, and are supported consequently through our procurement of their goods and services.

COMMUNITIES

We make a positive contribution to the communities in which we operate by actively supporting the development of local prosperity through highly skilled jobs.

GOVERNMENTS

Through paying taxes in the jurisdictions in which we operate, we support the development of public infrastructure and services such as healthcare, transport systems, police and education.

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 76 to 87. 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	- Our purpose in action - Investment case - Business model - Target markets - Strategy	4 10 18 24 26
INTERESTS OF EMPLOYEES	- Our purpose in action - Stakeholder engagement - Health and safety - Our people	4 21 43 49
FOSTERING BUSINESS RELATIONSHIPS WITH SUPPLIERS, CUSTOMERS AND OTHERS	- Business model - Stakeholder engagement - Target markets - Strategy - Ethics and business conduct	18 21 24 26 54
IMPACT OF OPERATIONS ON THE COMMUNITY AND THE ENVIRONMENT	- Introduction to sustainability - Health and safety - Environment - Our people	38 43 46 49
MAINTAINING HIGH STANDARDS OF BUSINESS CONDUCT	- Ethics and business conduct - Corporate governance report	54 78
ACTING FAIRLY BETWEEN MEMBERS	- Investment case - Stakeholder engagement - Corporate governance report	10 21 78

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

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.

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 MONITOR

- Order intake
- R&D expenditure
- Capital investment
- Process safety events

OUTCOMES

- Customer-focused inputs into the Group strategy
- Innovation and investment driven by customer requirements
- Collaborative, strategic customer relationships
- Improved customer satisfaction

EMPLOYEES

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 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

- Employee Voice participation and positivity scores
- Safety performance indicators
- Diversity statistics
- CEO pay ratio

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

ENGAGING WITH OUR STAKEHOLDERS

SUPPLIERS

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.

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 MONITOR

- Payments made within payment terms
- Statistics on issue of the Supplier Code of Conduct and inclusion of suppliers in the Chemring Compliance Portal

OUTCOMES

- Collaborative, long-term relationships
- Delivery of safe and reliable products and services to customers
- Appropriate working capital management

SHAREHOLDERS

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

- 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.com) 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

- Earnings per share
- Dividends paid
- Total shareholder return
- Environmental, social and governance metrics

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

BUILDING LEADING POSITIONS

GLOBAL SALES

% of Chemring's global sales (2017 – 2021)

UK 28%
USA 50%
Europe 12%
Asia Pacific 8%
Middle East and
rest of the world 2%

Chemring is an international technology company. Our home markets, where we have a significant organisational footprint, are the US, the UK, Europe and Australia. Despite the economic impact of the CV-19 global pandemic, overall defence expenditure has continued to rise, with only a few countries diverting planned defence spend to their pandemic response. Some nations have actually increased their short-term defence spend as part of a specific effort to stimulate their domestic economies.

US

The US has the world's largest defence budget and our US businesses are well placed to benefit from this strong market environment.

President Biden's budget request for FY22 suggests that the new Biden-Harris administration is looking to create a modernised force structure with a strong emphasis on technological sophistication and military readiness. The US DoD's element of the overall \$753bn national defence and security budget is \$715bn with the additional \$38bn being used to fund defence-related activities at the Department of Energy, Federal Bureau of Investigation and other agencies. This represents a non-inflation adjusted increase of 1.7%. We note the US budget's continuing resolution funds government operations at current levels through to mid-February 2022. At that point the budget must be accepted or another continuing resolution passed.

Competition with China and a pivot away from the Middle East towards the Indo-Pacific region are dominant in the planning assumptions, and throughout the budget request there is a strong focus on advanced capability enablers and R&D. Several of the identified priorities for targeted investment such as artificial intelligence, electronic warfare ("EW"), hypersonic technology, cyber and quantum computing can create opportunities for us to deploy Group-wide capabilities and technologies, particularly those in our Sensors & Information sector. Moreover, the need to counter emerging biological threats through threat reduction, infectious disease surveillance, biosecurity, and medical countermeasure R&D will also play into our strengths in the same sector.

The President's request also includes a \$12bn request for an additional 85 F-35 Lightning II aircraft which continues to drive demand in our countermeasures business. Finally, potential exists for FY22 US defence spending to be at a level greater than the President's request, with the House of Representatives Armed Services Committee having backed a proposal to increase US DoD spending to \$740bn – that is \$25bn more than proposed by the President's administration. Next, this will require Senate approval.

UK

Following November 2020's £16.5bn uplift for defence spending, the UK Government's defence and national security priorities as set out in March 2021's Integrated Review of Security, Defence, Development and Foreign Policy ("IR") align well to those of the US, and signal a strong and growing demand for our capabilities.

The UK's future priorities as set out in the IR are very well aligned to those of the US, and include the creation of new military and security constructs that are data and intelligence driven, with Science and Technology ("S&T") being positioned as a key element of UK soft power. Against this backdrop, there is a strong pivot towards the acquisition of high technology capabilities in the areas of cyber, artificial intelligence, data-science, EW, unmanned/autonomous systems and space. Our capabilities in the Sensors & Information sector, particularly in Roke, fit very well with these growing requirements.

By means of an example, digital integration across all defence domains will be key and a £1.5bn investment will be provided over the next decade to build and sustain a "Digital Backbone" that will be part of underpinning armed forces modernisation. An investment of some £500m will be made in Cyber and Electro-Magnetic Activities ("CEMA") to enhance the UK's overall capabilities in this environment, with £200m also provided over ten years to deliver an enhanced land EW and signal intelligence ("SIGINT") capability for the army.

The IR also confirms that the US is the UK's most important strategic ally, and our position in the US marketplace enabled through a Special Security Agreement ("SSA") reinforces the potential to leverage our capability across both these markets. As a part of this approach we have formed a dedicated Roke USA entity, staffed with US nationals, which will play an important role in developing new opportunities for us.

As the sole source supplier of countermeasures to the UK's F-35 Lightning II fleet we are well placed to benefit from the IR's stated plans to expand the UK F-35 fleet size beyond the 48 aircraft already ordered.

For Chemring, the UK MOD accounts for less than 10% of Group revenues, however, it is an important partner for developing and qualifying new products, a role that will gain increased significance with these new capability priorities.

EUROPE

Near-term European defence spend is growing as several countries are looking to approach the recommended NATO commitment.

Real-term European defence expenditure grew about 2% in 2020, with average spend among European NATO members reaching 1.64% of GDP. While this figure represents a continuation of the steady increases seen in recent years, it still falls short of NATO's recommended target for defence spend, namely 2% of GDP. This is despite the negative effect of the COVID-19 pandemic on the European economy that has caused an overall GDP contraction of c.7%.

The budgets of the major European defence actors – France, Germany, Italy and the UK – all have an upwards trend. While the planned UK budgetary increases and areas of focus have already been outlined, it should also be noted that France and Germany are continuing with their existing expenditure commitments even after implementing significant investment programmes to sustain their national industries confronted by the pandemic.

Although we continue to vie with highly capable competitors and national champions in Europe, we have succeeded in selling countermeasures, EW systems and improvised explosive device ("IED") detectors to several European customers, including Germany, France, Italy and Spain. In addition, we provide energeto materials and components to several leading prime contractors across the region. While the ultimate economic impact of the pandemic on European defence budgets has yet to fully evolve, the near-term outlook for the European market is potentially positive, with a number of niche opportunities for our capabilities.

AUSTRALIA

Australia is Chemring's fourth home market and is investing to modernise its defence capabilities.

Australia has a well-equipped military, with capability provided by major international contractors as well as highly capable local suppliers. In response to what it sees as a deteriorating regional environment, the Australian Government has plans to increase its total defence spending over the next decade from AU\$195bn to AU\$270bn. Associated with this budgetary increase is a simultaneous objective to foster a robust and resilient indigenous industrial base. Chemring Australia provides the Commonwealth with a non-shore capability in countermeasures manufacture, building on shared manufacturing know-how from across the Group. It is positioned to benefit from the global F-35 Lightning II programme as it shares with our countermeasures business in the US the production of countermeasures for the international F-35 operator base.

The recently announced Australia – United Kingdom – United States ("AUKUS") tripartite security alliance confirmed that the UK and the US intend to share with Australia their expertise in security and defence related S&T, including in cyber, artificial intelligence and quantum computing. AUKUS covers three of Chemring's home markets and the even greater co-operation that this pact will engender has potential to create new opportunities for the Group's capabilities.

SUSTAINABLE GROWTH

Our strategy is to continue to deliver profitable growth by operating in markets where we have differentiating technology and there are significant barriers to entry.

TARGET GROWING SEGMENTS

Despite the CV-19 global pandemic, macro-level world defence budgets are continuing to grow at a rate of 2-3% per year. However, at a more granular level some refocusing of specific capability priorities can be anticipated. Our customers' strategic context continues to evolve and the demand for capabilities in CEMA, artificial intelligence and autonomous systems is growing significantly. Other capabilities, such as counter measures, will continue to remain relevant in the contested environment that militaries operate in so funding will persist, whereas others, outside the scope of our solution offerings, are declining as military needs change.

Our strategy is to continue to focus on growing segments of the defence and security market based on our in-depth understanding of our customers' mission priorities with targeted investment in innovation and solution development, primarily in the Sensors & Information sector.

WIN MARKET SHARE

In addition to targeting threat focused growth segments, we also aim to win market share by focusing on meeting established customer needs in an effective and competitive manner. Our largest current investment is in the Countermeasures & Energetics sector to expand capacity at our manufacturing operations in the US to respond to the continuing demand for airborne countermeasures driven by air platform sales including the F-35 Lightning II.

GROW OUR US BUSINESS

Our US businesses deliver more than half the Group's revenue, and our businesses in both Countermeasures & Energetics and Sensors & Information are well placed on a range of critical US customer programmes including highly classified activities and substantial Programs of Record. This positioning provides the basis for developing strategic relationships across the US defence enterprise as well as delivering insight into future military requirements, which will be invaluable as we grow in the world's largest defence market.

Our principal risks are documented on pages 64 to 71

STRATEGY IN ACTION

In the US, we are building on our established position on the HMDS and EMBD Programs of Record to capture the JBTDs biological detection and AVCAD chemical detection Programs of Record, as well as continuing to build our position for growth markets including unmanned systems and detect-to-treat capabilities.

In the UK, we are building scale and accelerating Roket's growth as shown by our bolt-on acquisition of the Cubica Group with specialist capabilities in artificial intelligence, machine learning, data fusion and autonomy. Cubica also brings significant additional research and development expertise as we invest in next generation technologies and expand our product, service and capability offerings.

ORDER BOOK

£501m

+5%

2021	£501m
2020	£476m
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 the extrusion capacity required for next generation flare production. Elsewhere, we continue with our programme of significant investment in safety and automation as part of creating a robust group of high-performing manufacturing facilities.

ORDER INTAKE

£431m

1%

2021	£431m
2020	£437m
2019	£411m

STRATEGY IN ACTION

In Countermeasures & Energetics we take a holistic approach to our countermeasures activities. 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 we have established a Roket presence in the US to help leverage our land electronic warfare support products to the US customer base.

REVENUE

£393m

+2%

2021	£393m
2020	£402m
2019	£335m

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 KPI	SAFETY		
	1 NUMBER OF ENERGETIC EVENTS CAUSING HARM OR INJURY	2 NUMBER OF NEAR MISS AND POTENTIAL HAZARD REPORTS	3 TOTAL RECORDABLE INJURIES NUMBER AND FREQUENCY RATE
	2 (2020: 1) 2021 2 2020 1	3,518 (2020: 2,320) 2021 3,518 2020 2,320	14 (2020: 18) 2021 14 2020 18 RATE 0.67 (2020: 0.85) 2021 0.67 2020 0.85
DESCRIPTION	Number of energetic events causing harm or injury	Number of near miss and potential hazards reported	Number of recordable 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.	This is the rate for all injury 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.
2021 PERFORMANCE	There were two events this year compared to one last year. One event resulted in burn injuries that prevented the employee from returning to work while the other required only first aid treatment.	As we journey towards our goal of zero harm, we need a workforce that is fully engaged and proactive in reporting unsafe actions and conditions. One measure is the reporting of near misses, providing us with the opportunity to learn and prevent accidents from happening. It is very encouraging therefore to see a 20% increase in near miss reporting resulting in fewer accidents and incidents this year.	We had 14 employee injuries this year compared to 18 last year. This resulted in a further reduction in our recordable injury rate from 0.85 to 0.67. There were no fatalities during the year.

ORDERS**4****ORDER INTAKE
GROUP****£431m**
(2020: £437m)**SENSORS & INFORMATION**

2021	£176m
2020	£149m

**COUNTERMEASURES
& ENERGETICS**

2021	£255m
2020	£288m

Order intake is measured at expected sales value and represents the last 12 months activity.

The trend of order intake gives an indication of market conditions and our competitiveness within our markets.

5**ORDER BOOK
GROUP****£501m**
(2020: £476m)**SENSORS & INFORMATION**

2021	£114m
2020	£87m

**COUNTERMEASURES
& ENERGETICS**

2021	£387m
2020	£389m

Order book is measured at expected sales value and indicates future potential.

The level of order book, in particular for delivery in the next year, gives a degree of confidence in expected future financial performance.

REVENUE**6****REVENUE
GROUP****£393m**
(2020: £402m)**SENSORS & INFORMATION**

2021	£147m
2020	£137m

**COUNTERMEASURES
& ENERGETICS**

2021	£246m
2020	£265m

Revenue is measured at sales value less any applicable sales taxes.

The trend of revenue gives an indication of both the state of the end market and our business's ability to execute orders on time to satisfy customer needs.

Order intake across the group has remained robust at £431m (2020: £437m) despite the impact of the weaker US dollar, with HMX seeing order intake exceeding £100m for the first time and the release of further inventory orders on the HMIO's D-Q contract, as well as orders awarded to the US countermeasures businesses. The comparator year benefited from our Australian business receiving a \$6.7m multi-year contract for the supply of countermeasures for the F-35. The order book was up 5% to £501m (2020: £476m), with £318m currently due as revenue in FY22, approximately 64% coverage of FY22 targeted revenue.

Group revenue was in line with our expectations with strong performance in the Sensors & Information segment offset by a foreign currency headwind.

A CLEAR INSIGHT INTO OPERATIONAL AND FINANCIAL PROGRESS

STRATEGIC PRIORITY KPI	UNDERLYING OPERATING PROFIT AND MARGIN		UNDERLYING EARNINGS PER SHARE
	7		8
	UNDERLYING OPERATING PROFIT GROUP £57.5m (2020: £54.7m)	UNDERLYING OPERATING MARGIN GROUP 14.6% (2020: 13.6%)	UNDERLYING EARNINGS PER SHARE 16.9p (2020: 15.1p)
	SENSORS & INFORMATION 2021 £31.6m 2020 £27.4m	SENSORS & INFORMATION 2021 21.6% 2020 20.0%	CHANGE FROM PREVIOUS YEAR up 12% (2020: up 35%)
	COUNTERMEASURES & ENERGETICS 2021 £40.0m 2020 £39.9m	COUNTERMEASURES & ENERGETICS 2021 16.2% 2020 15.0%	2021 16.9p 2020 15.1p
DESCRIPTION	Underlying operating profit excludes non-recurring items that, by their size or nature, need to be separately disclosed to properly understand the Group's underlying operating performance. Underlying operating margin is calculated as underlying operating profit divided by revenue.		Calculated as underlying earnings after tax divided by the 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 underlying margin allows the impact of changes in volume and cost base to be contrasted, enabling comparisons to be made of management performance and trading effectiveness.		The measured extent of underlying EPS reflects all aspects of the Group's income statement, including the management of interest and tax.
2021 PERFORMANCE	The underlying operating profit increased by 5% during the year. The changes in margin of each sector reflect a mix of product mix, volume changes and performance improvement actions as set out in this strategic report.		Underlying EPS increased by 12% in 2021, driven by an increase in underlying operating profit and lower interest and taxation costs.

WORKING CAPITAL AND INVENTORY

9

WORKING CAPITAL GROUP

£84.4m

(2020: £85.1m)

SENSORS & INFORMATION

2021	£38.3m
2020	£38.8m

COUNTERMEASURES & ENERGETICS

2021	£46.1m
2020	£46.3m

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INVENTORY GROUP

£80.7m

(2020: £91.5m)

SENSORS & INFORMATION

2021	£19.8m
2020	£24.8m

COUNTERMEASURES & ENERGETICS

2021	£60.9m
2020	£66.5m

Working capital is defined as inventories, trade and other receivables, less trade and other payables excluding payroll related and other liabilities totalling £28.8m (2020: £26.2m).

Efficiently turning profit into cash and a degree of control over working capital.

Working capital as a percentage of revenue was consistent at 71% year on year, demonstrating the continued effective management of working capital.

Inventory is measured at cost.

The primary focus for improvement in working capital is inventory.

Inventory covenant is due advanced payment from customers, reflecting the on-going customer procurement in Countermeasures & Energetics.

NET DEBT AND CASH FLOW

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NET DEBT: UNDERLYING EBITDA

0.35x

(2020: 0.65x)

2021 0.35x

2020 0.65x

Measured as net debt divided by underlying EBITDA for the previous 12 months.

This is a measure of leverage within the business and is a banking covenant.

This has decreased in 2021, as underlying EBITDA has increased and net debt has decreased.

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UNDERLYING OPERATING CASH FLOW

£80.0m

(2020: £82.4m)

2021 £80.0m

2020 £82.4m

CONVERSION OF UNDERLYING EBITDA INTO UNDERLYING OPERATING CASH

105%

(2020: 110%)

2021 105%

2020 110%

Cash flow from operating activities before tax outflows, non-financing items and pension payments.

This is a key metric to convert profit into cash and is a banking covenant.

Operating cash conversion ratio exceeded 100% as our focus on the effective management of working capital was maintained.

SENSORS & INFORMATION

KEY FACTS

REVENUE

£146.6m

(2020: £137.2m)

UNDERLYING OPERATING PROFIT

£31.6m

(2020: £27.4m)

ORDER BOOK

£114m

(2020: £87m)

UNDERLYING OPERATING MARGIN

21.6%

(2020: 20.0%)

STATUTORY OPERATING PROFIT

£25.9m

(2020: £21.0m)

OUR PURPOSE IN ACTION

ELECTRONIC WARFARE

Within the electronic warfare sector we deliver complete electronic surveillance capabilities to detect, identify and locate radio frequency ("RF") emissions in the electromagnetic spectrum ("FMS"). Capabilities range from tactical man-backs to unattended ground sensors to vehicle-mounted operations, enabling commanders to sense deeper into the battlespace and identify threats at long range. Our Resolve and Perceive products are currently on trial with a number of different US Army divisions where customer feedback has been excellent. Bore USA continues to support the customer with a view to securing further orders from this potentially significant market.

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, law enforcement 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.

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 US 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 and accelerate Roke's capabilities and offerings, both through further bolt-on acquisitions and by leveraging opportunities in adjacent markets and territories. Roke USA, Inc. now provides the platform from which we are transitioning the electronic warfare ("EW") and other technologies created in the UK and commercialising them in the US. In 2022 we expect to see additional investment of approximately £2m in business development and marketing expenses as Roke USA becomes established and pursues EW opportunities.

In the UK, we are building scale and accelerating Roke's growth as shown by our bolt-on acquisition of the Cubica Group with specialist capabilities in artificial intelligence, machine learning, data fusion and autonomy. Cubica also brings significant additional research and development expertise as we invest in next generation technologies and expand our product, service and capability offerings.

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.

In the US, the \$115bn FY22 President's Budget Request for the US DoD identifies a need to modernise information and cyber-security systems, has a focus on research and development ("R&D") for new technologies, and specifically highlights the need to counter emerging biological threats. For this latter priority threat reduction, infectious disease surveillance, biosecurity and medical countermeasure R&D will be critical.

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

In both these home markets, the need to keep pace with rapidly evolving and complex threats align well with our Sensors & Information strategy. The clear emphasis placed on cyber, artificial intelligence, data science, EW and unmanned/autonomous systems should increase the opportunity space for Chemring to deploy its market-leading technologies in these areas of growing requirement.

PERFORMANCE

Revenue for Sensors & Information increased by 7% to £146.6m (2020: £137.2m) and underlying operating profit increased by 15% to £31.6m (2020: £27.4m), as underlying operating margin improved to 21.6% (2020: 20.0%). 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 10% to £151.5m and underlying operating profit would have risen up 19% to £32.6m. The statutory operating profit for the year was £25.9m (2020: £21.0m).

In the UK, the markets for EW, cyber-security and data science capabilities, in which Roke is a leading participant, have remained buoyant in the period. Roke delivered double digit growth in orders, revenue and underlying operating profit and has maintained strong margins despite increased investment in people, infrastructure and product development. This includes the establishment of a Roke presence in the North West of England to align with customers establishing a hub for national security in that area and aligns with Roke's strategy to grow talent and develop new hubs across the UK.

The acquisition of the Cubica Group in June 2021 is an excellent strategic and cultural fit for our Roke business. It offers leading edge capability in machine augmented intelligence and autonomy where Roke's customers require an exponential increase in capability to achieve digital advantage against complex threats. Roke plans to invest c.£1m in Cubica to support accelerated growth. This investment will be focused on research and development, infrastructure and security. Cubica has added further market leading capabilities to Roke's technology portfolio. The integration has progressed to plan and the business is performing well. Tackling harmful content and activity online remains a key priority in the UK and worldwide and Cubica's ground-breaking work in the digital and internet policing domains means we are well positioned to capitalise on opportunities with a number of high profile programmes.

In the US our Sensors business continued to focus on both the delivery phase of the HMDS Program of Record and on the engineering and manufacturing development ("EMD") and testing phases of the biological and chemical detection Programs of Record.

Key developments in the year on the major US Programs of Record are summarised below:

FOCUS ON continued

PERFORMANCE continued

The US DoD's explosive hazard detector (HMDS) program, which encompasses concurrent development, trialing and manufacturing, continues to progress as expected. Further delivery orders of \$69m were received during the year under the previously awarded \$200m ID Q contract, providing visibility on this Program of Record well into FY22. The production phase is progressing as planned and customer deliveries were made on schedule throughout the year.

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

The sole source Joint Biological Tactical Detection System ("JBTDSS") program is progressing as planned through the EMD phase and a customer procurement decision is expected in FY22.

The second biological program is the Enhanced Maritime Biological Detection System ("EMBD") an automated sensor to rapidly detect, collect, identify and sample airborne biological warfare agents, where the customer is the US Navy. In October 2021, following the successful completion of the low rate initial production contract that was awarded in May 2020, the US DoD approved and awarded a full rate production contract. The value of this sole source framework contract is up to \$99m with an estimated completion date of December 2027. An initial delivery order of \$16m will see deliveries being made in the first quarter of FY22 and FY23.

The Aerosol and Vapor Chemical Agent Detector program ("AVCAD") is also progressing through its EMD phase. The next customer procurement decision point is still expected to be at the conclusion of the EMD phase in FY22. Chemring remains one of two contractors currently selected for this competitive program, expected to be worth up to \$800m.

We are increasingly focusing our efforts within the US market through Roke USA, Inc. Following the first EW order to the US DoD that was secured in 2020, our Resolve and Perceive products are currently on trial with a number of different US Army divisions where customer feedback has been excellent. Roke USA continues to support the customer with a view to securing further orders from this potentially significant market.

OPPORTUNITIES AND OUTLOOK

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

In the UK, the national security and defence markets continue to grow with a focus on emerging technologies in connectivity, cyber, automation and data analytics. Roke will continue to focus its efforts on growing across all its business areas, delivering research, design, engineering and advisory services using its high quality people and capabilities.

We will continue to actively explore opportunities to expand and accelerate the Sensors & Information sector capabilities and offerings, both by leveraging opportunities in adjacent markets and through further bolt on acquisitions. However any acquisition must meet a strict set of criteria, enhance shareholder value and fit in with our wider growth plans.

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

The order book for Sensors & Information at 31 October 2021 was £113.6m (2020: £87.3m), of which £103m is expected to be delivered in 2022, providing 65% cover of expected 2022 revenue. 2022 trading performance for Sensors & Information is expected to show a continuation of the levels of business seen in 2021, with medium term growth opportunities driven by the chemical and biological detection Programs of Record moving into full rate production and continued demand for Roke's products and services.

OUR PURPOSE IN ACTION

EMBD

In October 2021 Chemring was awarded a full rate production contract for the Enhanced Maritime Biological Detection ("EMBD") Program of Record. The EMBD system is an advanced sensor system to rapidly detect, collect and identify airborne biological warfare agents. This sole source framework contract is valued at up to \$99m and is the culmination of many years of hard work and dedication at Chemring Sensors & Electronic Systems in Charlotte North Carolina.

COUNTERMEASURES & ENERGETICS

KEY FACTS

REVENUE

£246.7m

(2020: £265.3m)

UNDERLYING OPERATING PROFIT

£40.0m

(2020: £39.9m)

ORDER BOOK

£387m

(2020: £389m)

UNDERLYING OPERATING MARGIN

16.2%

(2020: 15.0%)

STATUTORY OPERATING PROFIT

£37.9m

(2020: £37.4m)

OUR PURPOSE IN ACTION

PROJECT CHARLIE

The investment in the expansion and automation of our Tennessee facility, known as "Project Charlie", will result in the most state-of-the-art automated flare manufacturing facility in the world. The project, which includes investment in people development, new technologies, processes and equipment, has been designed to meet the US DoD's expected future demand for countermeasures. The new facility began its commissioning process in October 2021.

OUR PURPOSE IN ACTION

CHEMRING COMPONENTS TO HELP SAMPLES LAND SAFELY FROM ASTEROID BENNU

NASA has integrated Chemring components onto its OSIRIS-REx spacecraft for the first ever mission to return a sample from the ancient asteroid Bennu. Up to almost two kilograms of asteroid sample will be brought back to Earth, the largest amount of extra-terrestrial material brought back from space since the Apollo era.

This mission will help scientists investigate how planets are formed and how life began, and improve our understanding of asteroids that could impact Earth. OSIRIS-REx launched from the Atlas V 411 Rocket on September 8th 2016, on a seven year mission, successfully rendezvousing with Bennu in 2018. The spacecraft carried out two rehearsals preparing for the sampling procedure, which successfully took place on 20th October 2020. After verifying the sample, OSIRIS-REx will leave Bennu and return the samples to Earth.

Chemring components will be critical to the successful landing of the spacecraft and the samples' safe delivery. Just before re-entering Earth's atmosphere, the sample return capsule will separate from the spacecraft body, and this separation will require the use of cable cutters supplied by our Chicago facility.

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.

STRATEGY

The Countermeasures & Energetics sector strategy continues to be one of strengthening and protecting our niche, 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.

Protection solutions against conventional threats in the traditional domains of air, sea and land remain vital and are important areas for the Group to maintain technology leadership.

Our countermeasures businesses continue to adopt a holistic approach to their activities, sharing intelligence, products and processes, and promoting the benefits of these capabilities to our international customers. This includes the development of multi-shot countermeasures that combine multiple payloads in one flare body to deliver enhanced aircraft protection.

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

The investment in the US manufacturing operations for our Countermeasures & Energetics sector will improve safety through remote operations, improve quality through automation and deliver extras on capacity required for next generation flare production. Elsewhere, we continue with our programme of significant investment in safety and automation as part of creating a robust group of high performing manufacturing facilities.

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, propellants 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.

Whilst there is a general trend in defence spending towards modernisation and new technologies, the need for Chemring's niche capabilities in areas such as countermeasures will continue to remain relevant in the contested environment that militaries operate in, so long-term demand and associated funding are expected to remain robust.

This was evidenced in both the FY22 President's Budget Request for the US DoD and the UK's Integrated Review, which maintained their support for both legacy and next generation air platforms including the F-35. This aircraft remains a driver of growth in the sector with US demand still expected to be in excess of 2,400 platforms, and the UK has maintained its commitment to expand its number of F-35 beyond the 48 already ordered. As a provider of countermeasures for this platform Chemring is well positioned to benefit from this increase which will contribute to us maintaining our market-leading position in the addressable air countermeasures market.

PERFORMANCE

Order intake in the year was lower at £255.1m (2020: £287.8m), primarily driven by the impact of a weaker US dollar and a strong comparator in 2020 when our Australian business received its \$107m two year order for the supply of countermeasures for the F-35 under a five year IDIQ contract.

Following the change of administration in the US and the continuation of COVID-19 working restrictions, the process of doing business with some government departments has, on occasion, slowed and as a result some Countermeasures & Energetics orders that were expected in the first half were delayed until the second half of FY21.

Nonetheless, during the year Chemring Countermeasures USA received multiple orders totalling \$111m, including a five-year IDIQ contract for the supply of M206 and MJU-7A/B infra-red decoy flares. Deliveries under these contracts started in 2021 and run through to 2024 giving improved visibility and strengthening our positions in key markets.

In the UK, Chemring Energetics secured a long term partnering agreement with Martin Baker Aircraft Company. This 15-year agreement will see Chemring supply propellant material and pyro-mechanical devices for use in a wide range of Martin Baker's ejection seats (including those on the F-35 Joint Strike Fighter) and is valued at up to £150m.

Revenue for Countermeasures & Energetics decreased by 7% to £246.7m (2020: £265.3m), driven by a foreign currency headwind as well as some timing delays on customer acceptance in the space market and the impact of COVID-19 on the commercial metrology market, both within the niche energetics businesses. The segment reported an underlying operating profit of £40.0m (2020: £39.9m) as underlying operating margin improved to 16.2% (2020: 15.0%) driven by improved operational execution, in particular at the UK countermeasures facility. On a constant currency basis revenue would have decreased by 3% to £256.5m and operating profit would have been up 5% to £41.9m.

The statutory operating profit for the year was £379m (2020: £374m).

The investment in the expansion and automation of our Tennessee facility to meet the expected demand for F-35 countermeasures has continued during the year. Construction work of buildings was completed and despite a delay in the supply of complex manufacturing equipment to site due to suppliers being impacted by COVID-19, the new facility began its commissioning process in October 2021. During the year £6m was spent on the facility bringing the total spend to date to £43m. The expected total cost of the programme remains approximately £50m. The facility will now go through a period of characterisation and testing as production gradually ramps up. We still do not expect to generate revenue from the new facility until the second half of our 2022 financial year.

Our niche energetic devices businesses enjoyed another strong period driven by favourable market conditions and improving operational execution. The specialised and niche nature of our production was demonstrated in February 2021 when the Perseverance Rover landed on the surface of Mars with 233 Chemring devices on board. These were designed, developed and manufactured at our Chicago facility and were critical to the success of the mission.

OPPORTUNITIES AND OUTLOOK

The focus for Countermeasures & energetics remains on safeguarding and growing the Group's market leading positions in niche markets.

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

We will continue the process of expanding our capacity at our countermeasures manufacturing operations in the US in response to the continuing demand for airborne countermeasures driven by air platform sales including the F-35 and in the important special material decoy market.

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

The Countermeasures & Energetics order book at 31 October 2021 was £387.2m (2020: £388.7m). The slight decrease compared to the 2020 year end closing order book is partly attributable to foreign exchange, on a constant currency basis using the 2020 closing exchange rates the order book would be £397.3m. The remaining movement is largely attributable to the delivery of a substantial part of the \$107m F-35 two year countermeasures contract by our Australian business that was received in April 2020 offset by increased order intake in our US countermeasures businesses. Of the 31 October 2021 order book, approximately £255m is currently expected to be delivered in 2022, representing 95% coverage of expected 2022 revenue.

A RESPONSIBLE APPROACH

OUR PURPOSE IN ACTION

TREATING WASTEWATER ONSITE

Across Chemring, we are developing a sustainable water policy and seeking further water conservation opportunities throughout the Group.

One such example is at Chemring Nobel in Norway, which manufactures specialised energetic chemicals for the defence and civilian industries.

Wastewater from the chemical industry often contains high concentrations of organic compounds, and treating it is essential. In 2019, Chemring Nobel invested in a new, onsite wastewater treatment facility.

The £2.5m facility has two reactors, each with a capacity of 220m³. The facility processes around 3,000m³ of water per week. To put that into perspective, the average household uses around 164m³ of water over the course of a whole year.

The plant consists of two sedimentation tanks in parallel and removes suspended material from the water. This mostly consists of explosive residues that are later destroyed at the fireground. The cleared water goes through for automatic sampling and water volume measurement. It is then released into the fjord, approximately 120m out and 52m deep on the seabed.

During the treatment process, bacteria ingest the hydrocarbons dissolved in the water, and air, heat and nutrients are fed into the reactors to create a favourable environment for the bacteria. Dead bacteria turn into sludge, which can then be discarded. The "bacteria-house" within the plant is the equivalent size of 21 football pitches.

Chemical oxygen demand ("COD") is used to measure the amount of organic compounds in the wastewater. The COD test is often used to monitor water treatment plant efficiency. The lower the COD figure, the more efficient the treatment plant. Since the plant became operational in 2019, the amount of COD accumulated weekly has reduced by 80%.

COMMITTED TO A SUSTAINABLE FUTURE

Michael Ord

Group Chief Executive and Chairman of the Group Sustainability Committee

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 long-term sustainable value creation through safe, values-based and ethical business conduct at all times.

PURPOSE

Chemring helps make the world a safer place. Across physical and digital environments, our exceptional teams deliver innovative protective technologies to detect and defeat ever-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.

Improving our sustainability performance plays a key role in the way we both run our businesses today and plan for the future, as we manage our environmental, social and governance ("ESG")-related risks. We also recognise that our ESG credentials are an increasingly important factor in our ability to attract and retain first-class people. Engaged, motivated, empowered and appropriately skilled employees are integral to our success.

Whilst our approach to sustainability continues to mature 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. Increasingly this focus will develop from working as a trusted partner to our many customers and ensuring that our internal standards are fit for purpose, to working with our supply chain to ensure that they too work to the same standards. In doing so we will build a sustainable company of which all our stakeholders can be proud, now and in the future.

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.

COMMITTED TO A SUSTAINABLE FUTURE

PROGRESS IN 2021

From an ESG perspective 2020 was a baseline year for Chemring where we focused our efforts on gaining a better understanding of our data, identifying gaps within our knowledge, completing the reshaping of the portfolio to focus on protective technologies and putting in place the infrastructure and governance to effectively manage our sustainability agenda.

We have continued to build on this progress in 2021 with the overriding goal of elevating our ESG-related activity.

A natural first step in this, and a priority goal for the year was to continue the process of gathering and validating data and to undertake a materiality assessment to identify the material topics of greatest concern to our stakeholders and to identify those areas and activities where our actions could have greatest impact.

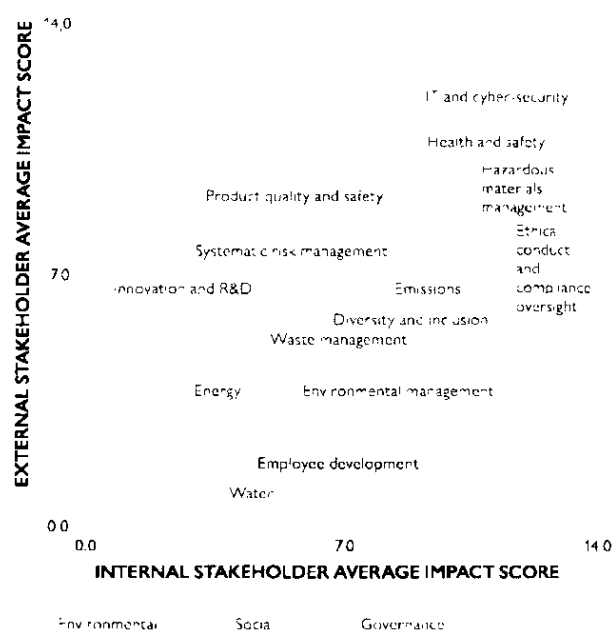
The materiality assessment process identified the most significant economic, environmental, social and governance topics, both risks and opportunities, and ranked them according to feedback from a selection of stakeholders including customers, suppliers, executive directors, employees and investors. Key focus areas included health and safety, diversity and inclusion, reducing climate change and employee wellbeing. The issues were identified and ranked according to their importance to Chemring (see right).

In addition to the materiality exercise the Group also conducted a mapping exercise to consider the alignment of the organisation to the United Nations Sustainable Development Goals (the UN SDGs), and assess the opportunities to measure and manage Chemring's contribution to the UN SDGs going forward.

Taking into account UN SDG sector relevance, Chemring material topics, KPIs, and Chemring's high-level business sustainability goals, the UN SDG mapping process outlined that Chemring's operations, products and strategy align most notably with the UN SDGs listed below.

Icon	Goal	Description
	Good health & wellbeing	Ensure healthy lives and promote wellbeing for all at all ages
	Gender equality	Achieve gender equality and empower all women and girls
	Affordable & clean energy	Ensure access to affordable, reliable, sustainable and modern energy for all
	Decent work & economic growth	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

STAKEHOLDER MATERIALITY ASSESSMENT



Icon	Goal	Description
	Reduced inequalities	Reduce inequality within and among countries
	Responsible consumption & production	Ensure sustainable consumption and production patterns
	Climate action	Take urgent action to combat climate change and its impacts
	Peace, justice & strong institutions	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

Both exercises have been core to enabling us to set appropriate near and longer-term targets against which our progress can be measured. We outline how these UN SDGs sit alongside our associated objectives and activity in the table below.

OUR SUSTAINABILITY GOALS

UN SDG	Sustainability objectives	Supportive actions and activity	Further information
ENVIRONMENTAL Respecting and protecting our planet by actively seeking ways to reduce our environmental impact	- Reduce our impact on the environment and build resilience to climate change by focusing on energy, waste and water, and by understanding the impact of global climate change on our operations - Challenge our business unit leaders to improve operational resource and energy efficiency and to minimise environmental impact - Invest in support of product development and production techniques that meet our customers' needs and support their environmental goals	- Chemring will be carbon neutral by 2030 - Chemring is working towards being a net zero organisation by 2050 and is committed to supporting its value chain - We will reduce our total direct (scope 1) and indirect (scope 2) GHG emissions year on year - We will continue to focus our efforts on reducing energy consumption and on embracing green technology - We will target zero waste to landfill by 2030	Environment on pages 46 to 48
SOCIAL The safety, wellbeing and development of our people is at the heart of our business	- Maintain the highest standards of safety and the wellbeing of our workforce - Ensure that, in support of our wider commitment to ethnic and gender diversity, our workforce represents the diversity of the local communities we operate in - Implement effective policies and procedures and continually invest in support of operational excellence and the development of our people - Promote inclusion and diversity at all levels - Promote fair employment and skills development	- We will set a recordable injury frequency rate limit of below 1.0 in line with upstream qualitative benchmark performance - We will continue to reduce the risk of high hazard events - We will increase the proportion of women in senior or management positions across the business to 33% by 2027	Health and safety on pages 43 to 45 Our people on pages 49 to 53
GOVERNANCE Conducting business in an ethical and responsible manner at all times	- Operate with integrity and transparency and to the highest ethical standards across all our businesses - Ensure the highest standards of product safety and comply with all relevant standards - Promote a culture where everyone does the right thing and takes personal responsibility for their actions - Actively seek to increase representation of ethnicity and gender on our Board, within our leadership teams and across all our nationalities - Protect information security and data privacy - Maintain prudent and responsible financial and tax planning and management	- Chemring will maintain the Hampton-Alexander target of 33% of women on the Board - We will seek to meet the guidelines of the Parker Review on ethnic diversity as we refresh the composition of the Board - All Chemring employees and third parties acting on our behalf must comply with the Chemring Code of Conduct, wherever they are located in the world	Ethics and business conduct on pages 54 to 56

INTRODUCTION TO SUSTAINABILITY continued

PROGRESS IN 2021 continued

Good progress has been made to date as our ESG agenda evolves and matures.

To facilitate and ensure a centralised approach to sustainability across all our businesses, a Group Sustainability Committee was formed during the year. Chaired by Michael O'nd, the Group Chief Executive and Board director responsible for sustainability across the Group, the Committee now has oversight of all the Group's ESG-related activity. The Committee consists of members of the Group's Executive Committee with responsibility for health and safety, environmental impact, people and ethics and business conduct supported by internal subject matter experts. The Committee will shape and monitor the implementation of our sustainability agenda, and will propose to the Board for approval key ESG-related targets for the Group. The Committee will keep the Board regularly briefed, and will ensure that the Group continues to make progress in the future.

To ensure that our sustainability goals are aligned with both our long-term strategy and executive remuneration arrangements, ESG-related performance targets will be included in the Group's performance share plan for awards made from FY22 onwards. These targets will supplement the ESG-related objectives which are already included in our annual bonus plan and which are cascaded down through the organisation.

The work carried out during 2021 has enabled us to gain a better understanding of our exposure to ESG-related risks and, through active engagement with our key stakeholders, a better understanding of their concerns and priorities. Our strategy over the current and future years will seek to identify those areas where our activities can have most impact. Plans are now in place to continue this journey and to ensure that we meet the growing disclosure requirements of our stakeholders and demonstrate our ability to successfully address ESG-related issues.

We will also continue to work with our advisers and shareholders to identify how we can constructively feed into and inform the debate on the future of ESG reporting and the creation of a common set of standards against which we can be measured.

Chemring is now a business whose evolving purpose is 'innovating to protect, and with that we are focused on protecting our customers, people, platforms, missions and information'. Less than 10% of our revenue relates to the provision of raw material and components that may be used by our customers in the production of offensive capabilities. This will reduce further as the focus areas of the Group continue to grow.

As a business we are committed to building a sustainable company of which all our stakeholders can be proud, both now and in the future.

ESG HIGHLIGHTS

HEALTH AND SAFETY

0.67 (2020: 0.85) -21%

TRIF rate

High-potential incidents 9 (2020: 19) down 53%

Technical Safety and Occupational, Health, Safety and Wellbeing Committees formed

ENVIRONMENT

GHG and carbon emissions flat (±1% difference year on year)

Carbon reduction plans being implemented in every business

Sustainability Committee formed to shape, monitor and ensure future progress

PEOPLE

100%

of our senior leaders have participated in diversity, equity and inclusion workshops

All new graduates and apprentices will take part in a UK-wide Early Careers development programme which started in November 2021

ETHICS AND BUSINESS CONDUCT

Updated Code of Conduct and training issued

Continued implementation of Chemring Compliance Portal

Operational assurance process enhanced

**FURTHER DETAIL CAN BE FOUND
IN OUR SUSTAINABILITY REPORT**

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 ongoing development and assurance of the Group's health, safety and environment strategy known as Journey to Zero Harm. 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 HSE KPIs.

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 proactive 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.

HEALTH AND SAFETY continued

ACHIEVEMENTS

2021 has continued to be a challenging year as we maintained a safe COVID-19 environment despite the pandemic. Whilst this created a need for special focus, we have still maintained progress in line with our health, safety and environmental ("HSE") strategy of Zero Harm, consolidating the processes we implemented last year around the themes of:

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

We have also added an additional element to our strategy regarding night capability which extends to all employees. As a result of the restrictions associated with COVID-19, the Management of Change Process was used effectively to ensure safe and continued operations. Actions taken in delivering the HSE plan included:

- consolidation of a travel risk management process,
- implementation of a revised Crisis Management Plan, and
- implementation and consolidation of our three HSE sub-committees focusing on the following areas:
 - environmental,
 - occupational health, safety and wellbeing, and
 - technical safety, which combines process safety and asset integrity.

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 three 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 our employees from exposure to energetic hazards. During the design of these processes, we have placed more scrutiny on the application of process hazard analysis.

In 2019 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 third 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 as a result of this maturing process we are now more aware of the residual risks and throughout the year have taken steps to reduce these to a level as low as is reasonably practicable following last year's review of asset integrity at all Countermeasures & Energetics businesses and the development and implementation of a Group asset integrity standard, a common computerised maintenance management system has been selected to implement across the businesses improving management and accountability.

Towards the end of the year, we established the Technical 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, asset integrity, implementation and the continued 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.

This year we not only consolidated but further developed our corporate reporting platform to capture better understanding of root causes and increased levels of assurance. These additional data points will help our continued focus on becoming a learning organisation.

With regards to leadership on safety, this again has never been more critical than during the pandemic. Business unit leaders continue to manage an evolving situation through the Chemring COVID-19 Playbook ensuring the appropriate rigour and governance through our change management process. Our focus on injury prevention, in response to COVID-19, continues to place more emphasis on people's emotional wellbeing, which is now supported by the newly formed Healthy Workplace sub-committee.

HSE RISK MANAGEMENT

Safe delivery of our business continues 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 every two years to ensure compliance, with high priority non-compliances being reported and monitored at Executive Committee level. Due to the pandemic, changes were made to our Operational Assurance Statement process ensuring alignment to the HSE framework requirements. This provided more granularity and direction when planning the Line of Defence 2 (LOD2) audits.

In addition to our internal assurance process, a review of our electrostatic discharge ("ESD") risks is underway to help establish a framework of protocols designed to enable the development of suitable and sufficient plans to address the risks at the operational levels.

OUR HSE PERFORMANCE

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

OCCUPATIONAL SAFETY

We focus not only on actual injuries but also hazards and near miss events. We therefore place an emphasis on near miss and hazard reporting as a leading indicator of our maturing safety culture. This year we had 2,602 occupational safety near miss and hazard reports compared to 1,417 in 2020, reflecting an increase in reporting. We had a total of 9 high-potential incidents compared to 19 last year.

We are embedding this learning into the organisation through quarterly Learning from Incidents reviews with all business leaders and increased use of safety alerts, not only to share incident learning but also as good practice.

PROCESS SAFETY

There were two energetic incidents with injuries during the year, both at our Tennessee facility. In March 2021, a drum overpressurised and ruptured resulting in minor injuries to an employee that did not require medical treatment. In May 2021, an operator suffered burn injuries after a solvent-based energetic solution ignited due to an electrostatic discharge. The company retained specialist support and worked closely with operations personnel to redesign the process.

In addition to our reactive metrics we also measure process safety near miss events, with a total of 796 recorded in 2021 compared to 803 in the previous year. This reflects progress made as a result of our focus on process safety and asset integrity. During 2020 we consolidated the reporting of our leading indicator for process safety events ("PSE"), which are categorised as level 1, 2 and 3, with 3 being the event with the most serious potential. We set a target of 2.5 PSE at level 2 and 3 per 100 production employees, and this year we achieved 1.73.

HSE STRATEGY FORWARD OUTLOOK

In 2021 we reviewed the current three-year strategy focused on the control of major accident hazards, injury prevention and HSE risk management. This review resulted in an additional element regarding the right capability being added as well as a more balanced approach towards health, wellbeing and the environment. The revised strategy is therefore a natural evolution and reflects the maturity of the business. As such, during the next three years we will focus on:

- asset integrity and process safety – relating to the control of major accident hazards and PSE events including a review of all ESD risks;
- occupational health and safety – focusing on injury and illness prevention, including psychological health and wellbeing;
- environment and sustainability – to co-ordinate our work on reducing our environmental impact; and
- improved data – enabling data-driven discussions and decisions leading to a more proactive culture.

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.

OUR COMMITMENT

We will reduce our total direct and indirect greenhouse gas ("GHG") emissions year on year and will be carbon neutral by 2030.

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 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, 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 2020 and 2021 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 cars to vehicles and refrigerant releases. Primary scope 1 emissions are CO₂ with small contributions from CH₄, N₂ and HFCs.

Our energy and carbon figures are now recorded on a monthly basis allowing cross checks for anomalies. To ensure a consistent approach we utilise DEFRA 2020 published conversion factors for all conversions (except non-UK electricity where EUSENEX and IAE factors are used). Spot checks are conducted against utility bills to validated published figures.

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 understanding the impact of global climate change on our operations. These three focus areas were updated in 2021 based on a materiality review of our environmental impacts and risks, with a focus on impacts that we can influence. These focus areas are periodically reviewed by our 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. In addition, in October 2021 we began collecting environmental data monthly at a Group level and tracking reduction progress through a dashboard system.

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 2021 we committed to becoming carbon neutral for scope 1 and 2 emissions by 2030 and working to be a net zero organisation by 2050.

To improve our energy efficiency, we continue to make improvements to our operations, including installing new energy-efficient buildings to replace old buildings, upgrading HVAC systems and improving lighting.

We continue to implement relamping projects to replace fluorescent lighting with LED lighting to improve lighting and save energy. In 2021 we conducted relamping in five buildings at our Tennessee facility.

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. Measures taken to mitigate these issues continued in 2021, including improving drainage at our Tennessee facility and maintaining lower vegetation heights at our Australian and Norwegian sites. A more thorough review of climate risks was not able to be conducted due to COVID-19, however we intend to review the physical and transition risks of global climate change on our operations and supply chain over the next year.

ENERGY USE AND ASSOCIATED GHG EMISSIONS FOR 2021 AND 2020

Our Countermeasures & Energetics businesses in Norway and Scotland are responsible for 37% and 26%, respectively of Group energy usage. This is followed by our business in Tennessee, which accounted for 17% of

annual energy consumption. We are in the process of developing or updating carbon reduction plans in all of our businesses. Our UK operations account for 81% of our scope 1 emissions, 22% of our scope 2 emissions and 37% of our energy use.

In terms of CHG emissions, in 2021 we observed a minor (0.7%) increase in scope 1 and 2 emissions from 22,480 tCO₂e in 2020 to 22,646 tCO₂e in 2021 using location-based emission factors. When normalised for gross revenues, this reflects an increase of 3% from 53.8 to 57.6 tCO₂e per £m of revenue.

Carbon emissions are stable. This reflects the priority this year being to understand and ensure robust energy and carbon reporting. Whilst the carbon intensity has increased from 55.8 to 57.6 tCO₂e per £m of revenue, it is due primarily to sterling strengthening against the US dollar in the year decreasing revenue. Based on a constant currency revenue value of £408.0m (see page 60) our carbon intensity is stable at 55.5 tonnes per £m of revenue compared to 55.8 last year.

	2021 ¹			2020		
	UK	US, Norway, Australia	Group total	UK	US, Norway, Australia	Group total
Scope 1 emissions – continuing operations						
Combustion of fuel in any premises, machinery or equipment operated, owned or controlled by the Group						
CO₂e (tonnes)						
Gas	5,303	504	5,807	5,567	443	6,030
Heating oil	1,475	96	1,571	1,764	39	1,793
LPG	29	249	278	36	197	230
Fuels consumed by Group owned and leased vehicles, excluding business travel and employee commuting						
CO₂e (tonnes)						
Diesel	93	97	190	103	184	287
Petroleum	—	77	77	—	211	211
LPG	—	19	19	—	—	—
The operation or control of any manufacturing process by the Group						
CO₂e (tonnes)						
On-site waste incineration	21	147	168	—	4	5
Refrigerants discharged	73	488	561	88	649	737
Total scope 1 emissions CO₂e (tonnes)	6,994	1,677	8,671	7,521	1,772	9,293
Scope 2 emissions – continuing operations						
Total emissions CO₂e (tonnes)						
Electricity – location-based	3,086	10,889	13,975	3,145	10,042	13,187
Electricity – market-based	—	12,013	12,013	—	11,082	11,082
Total scope 1 and 2 emissions – continuing operations						
Location-based CO ₂ e (tonnes)	10,080	12,566	22,646	10,666	11,814	22,480
Market-based CO ₂ e (tonnes)	6,994	13,690	20,684	7,521	12,854	20,375
Total energy consumption (Mwh)	48,373	81,689	130,062	51,022	78,591	129,613

NOTE:

1. Our 2021 and 2020 data does not include environmental impacts associated with Chemring Ordnance and Chemring Energetics Devices' Torrance and Santa Clarita sites, which were sold or closed during the reporting period.

	2021	2020
Total scope 1 and scope 2 emissions CO ₂ e (tonnes) – continuing operations and location-based	22,646	22,480
Group revenue (£m)	393.3	402.5
Total CO₂e (tonnes) per £m of revenue	57.6	55.8

ENVIRONMENT continued

WATER CONSUMPTION

In 2021 we used a total of 1,220,000 m³ of freshwater. We had a slight reduction from our 2020 use obtained through improved maintenance at our Norway facility. None of our operations are in water-stressed regions as defined by the United Nations. Our Australian facility continues to collect and use rainwater that falls on the site for facility needs.

	2021			2020		
	UK	US, Norway, Australia	Group total	UK	US, Norway, Australia	Group total
Freshwater (m ³)						
Freshwater use	668,000	552,000	1,220,000	578,959	686,823	1,265,812

WASTE GENERATION

In 2021 our total hazardous and non-hazardous waste was 363 and 2,173 tonnes respectively, reflecting a 10% reduction and 39% increase from 2020. Of this, 9% of hazardous and 47% of non-hazardous waste was recycled. As we continue to improve our data reliability, we have a better baseline for planning reductions. Our new reporting system will allow tracking of waste destinations in 2022 in support of our zero waste to landfill goal.

	2021			2020		
	UK	US, Norway, Australia	Group total	UK	US, Norway, Australia	Group total
Waste (tonnes)						
Recycled, non-hazardous	397	635	1,032	191	601	792
Recycled, hazardous	32	1	33	88	1	89
Not recycled, non-hazardous	164	977	1,141	143	625	768
Not recycled, hazardous	88	242	330	51	262	313
Total waste (tonnes)	681	1,855	2,536	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 2021 we commenced work on upgrading the testing and treatment facilities at our Scot. Ind 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.

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.

In 2021 we also incurred environmental costs associated with legacy sites in Belgium and Italy in accordance with the terms of sale of those businesses. The Group carries a £3.0m (2020: £3.2m) provision in respect of environmental liabilities, which the Board considers to be adequate (see note 2.3).

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.

INVESTING IN OUR PEOPLE

Chemring people are at the heart of our business. Our goal is to ensure that we have the right people, in the right place, at the right time, with the right skills working in a safe, healthy and inclusive environment. Investing in our people has never been more important.

OUR OVERALL PEOPLE APPROACH IS FOCUSED ON FIVE KEY AREAS:



THESE AREAS ARE UNDERPINNED BY THE CHEMRING CULTURE

CHEMRING CULTURE

The heart of our people approach is having the right people, in the right place, at the right time. Our people approach is underpinned by our culture. The Chemring culture is the soil that allows everything else to grow.

Our investment in our culture, which started with a full review in every part of the business in early 2019, is now embedded in every part of Chemring.

The 2019 review enabled us to set a clear aspiration for the Chemring culture, and this was used to create a framework around which all our actions are set and measured. These aspirations are focused around four key areas:

- customer centricity;
- leadership;
- the employee experience; and
- diversity, equity and inclusion.

Since 2019 the business has worked to take actions designed to progress in each of these four areas. Actions have included:

- leading our People development programme for all line managers globally in support of developing Chemring leaders;
- performance conversations taking place between line managers and team members every six to eight weeks replacing the annual review process;
- employee forums run locally to focus on specific areas of concern or interest in the business and to create actionable solutions. Topics range from how to support improved collaboration between functional areas to developing competency models for operators;
- hybrid working principles agreed for each part of the business and the development of local hybrid working policies to put these principles into action.

OUR PEOPLE continued

CHEMRING CULTURE continued

- community and recognition events such as charity fundraising working with veterans organisations and hosting thank you events for staff who have worked tirelessly through the pandemic and
- Early Careers development programme for all new graduates and apprentices joining in autumn 2021 in the UK providing early leadership and people skills development and the opportunity for building a cross business network

Measuring progress is key to understanding how far we have come in achieving our cultural aspirations. Our Employee Voice initiative ensures that we are regularly checking in with colleagues to track and share our progress towards the aspirational culture goals. This initiative, which is underpinned by a real-time bespoke sentiment tracking tool, creates dashboards of participation and positivity around those cultural markers we know are important. Business unit leaders review regularly and share progress with colleagues at all levels through multiple channels.

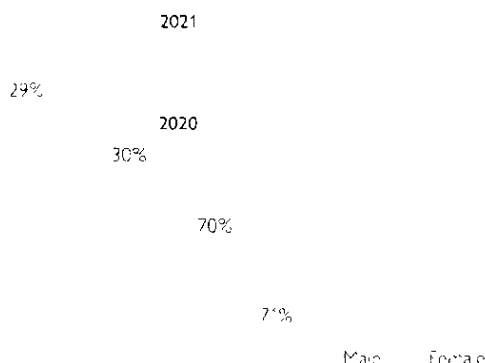
UNDERSTANDING OUR POPULATION

Our Chemring business is highly diverse. Our colleagues work in diverse environments across the globe, with skill sets ranging from scientists, engineers, technicians and operators to deep functional experts in areas such as health and safety, people and technology.

Our success depends on understanding our global population. Investment to date has been around understanding levels of engagement and the employee experience. Technology also enables better understanding of the employee population and investment in HR technology systems has been a significant focus in 2021. A full review of all HR systems and processes in each part of the business has been completed. From this the identification of opportunities for system unification and process streamlining will commence in 2022 including identification and mitigation of any risks.

Understanding the changing needs of our colleague population is a key element of our people approach. Accordingly, in 2021 we introduced hybrid working principles as a benchmark for each business to develop their own locally tailored hybrid working policy. These will be in place for every part of the business from the start of 2022. This approach is a reflection of the success of home working for many non-operational colleagues through the pandemic which was designed to keep all colleagues as safe as possible through reducing footfall on site to those who were critical to the production efforts. The maintenance of some of these new work routines is in support of the different needs of our colleagues and enhances our ability to attract and retain talent in an increasingly competitive market.

TOTAL POPULATION



DEVELOPING OUR PEOPLE

340+

line managers and supervisors involved in global Leading our People management development initiative

>55

graduates and apprentices hired in the year

LISTENING TO OUR PEOPLE

>1,800

colleagues with regular access to bespoke Employee Voice pulse survey

45%

regular response rate of participants

>70%

positivity score

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 messaging and the CFO's vlog, with an active Q&A encouraging anyone from across the business to ask a question as well as regular distribution of the Chemring magazine, Chemring+, which has been refreshed and relaunched in the year.

In 2021 we revisited the culture review work which commenced in 2019. As part of this review, colleagues from every part of the business had the opportunity to meet with an external consultant and share their experiences of being a Chemring employee. The themes from these discussions were reviewed against the themes from 2019 and the data from the Employee Voice tool to corroborate progress.

The Employee Voice tool has generated over 40,000 responses during 2021 from our colleague base of 2,300 as well as over 4,000 individual written comments.

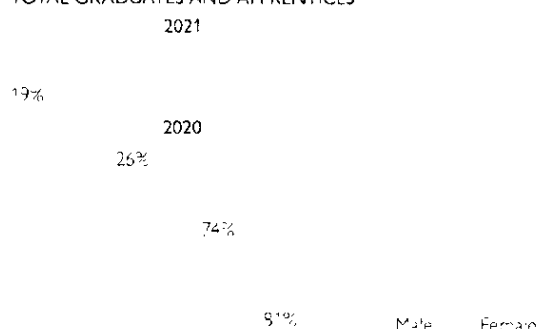
Throughout 2021, positivity – the extent to which a colleague feels positive about our culture and their experience of working at Chemring – has stayed consistent at just over 70% with little variation across the year. Despite the challenges of the pandemic, our colleagues remain positive about working at Chemring. Work continues to drive as much participation as possible from all colleagues, from current levels of just under 50% regularly responding to ensure that there are no barriers to participation. A regular review of the responses at business unit level and globally (with the US and the rest of the world taken as two different groups) ensures that concerns are identified quickly and addressed in real time.

During the year Laurie Bowen, as Chairman of the Remuneration Committee and non-executive director charged with employee engagement on behalf of the Board, met again 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 were drawn from Countermeasures UK and Roke in the UK, and Sensors & Electronic Systems in the US. Participants were drawn from across each level of the business units and met with Laurie in small groups. Colleagues were positive about the opportunities for development within their business unit and felt that Chemring provided good levels of support to them and their families during the Covid-19 pandemic. Collaboration, which was a key theme in 2020, was raised again; however, there was a focus now on collaboration between business units. Collaboration and communication within the business units were seen to have improved.

DEVELOPING 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 which challenge their technical expertise every day. 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 remain up to date. Additionally through different routes, further technical development including workplace PhD programmes and MBA study, is actively undertaken by a number of colleagues.

TOTAL GRADUATES AND APPRENTICES

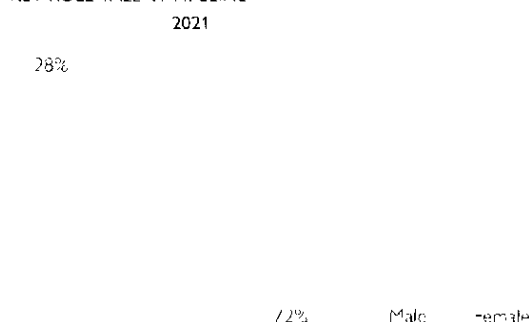


There has been additional focus on development for apprentices and graduates in 2021. In the year we welcomed over 40 graduates across the UK business units and 15 apprentices into multiple disciplines. Our business wide approach to ensuring appropriate development of non-technical skills from an early point in a graduate or apprentice's career with Chemring supports the development of future leaders for the business.

We continue our commitment to sponsoring bursaries for undergraduates through the Institute of Engineering and Technology which underpins our commitment to supporting future generations of scientists and engineers.

The line manager and supervisor development programme – Leading Our People – continued throughout 2021. With over 340 participants in the Leading Our People programme, over 80% of the population are impacted through participating or being managed by a colleague who has participated. Despite the challenges of the CV-19 pandemic, all business units continued with some level of development, supported by centrally created skills sheets to support the new requirements of managing remotely or managing teams which were reduced in size due to CV-19 related absence.

KEY ROLE TALENT PIPELINE



Internal networks of colleagues are increasingly important to knowledge sharing and innovation. The Leading Our People programme has a focus on enabling new networks to develop and new relationships to form within businesses. This underpins our culture of collaborating and sharing to support the core values of Innovation and Excellence.

Our future senior leaders are supported through the Emerging Leaders programme which was established in 2018. Whilst a second cohort of participants was planned to participate in 2021, this programme was paused due to the challenges of international travel and the restrictions around bringing groups of colleagues together. The programme was reviewed to challenge whether it would be successful as a virtual learning intervention. However, a key element is building networks through shared experiences and therefore the programme is planned to restart in 2022.

DEVELOPMENT FRAMEWORK



OUR PEOPLE continued

DEVELOPING AT CHEMRING continued

In 2021 a global framework for assessing and supporting talent and succession planning was introduced into every business unit. This framework provides a consistent approach to understanding key roles in the business and creating an understanding of the talent pipeline for each role. Action plans for both the individual and the organisation are in place to ensure progression. Diversity data for talent pipelines shows that there is some work to do to develop a broad range of talent for key roles and this is an area for focus in 2022 and is aligned to the ESG work and the requirements of the Hampton-Alexander Review and the Parker Review for diversity at senior levels.

Wellbeing continued to be a key theme in 2021. In line with the approach of Global Voice, Local Accent, a global committee focusing on creating and maintaining a healthy workplace has been established in the year. This brings together colleagues from across the Group to consider how best to support and maintain a healthy workplace for all colleagues.

As part of the 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 across all business units in 2021.

Support through the provision of occupational health services on demand in each location has been used extensively in 2021 through the pandemic. Additionally the provision of Employee Assistance Programmes, which have been in place for a number of years, has seen higher levels of usage in 2021 and there has been a significant focus on ensuring colleagues understand the help available to them in a number of areas and how to access it.

DIVERSITY AND INCLUSION AT CHEMRING

We are committed to ensuring that we continue to support the identification, attraction, hiring, development and promotion of all talent. Chemring strives for diversity on a broad basis, including gender, age, background, education, disability, neurodiversity and nationality (within the constraints of our regulatory requirements). This is an area where we continue to develop both globally and locally and which will be central to our success in the coming years.

Our focus on culture and our ongoing development of our approach to supporting all colleagues mean that we have an increasing number of formal and informal groups around the business which support and connect people with shared characteristics or interests. Alongside the Employee Forums we also encourage groups representing specific diverse characteristics.

As an employer we make 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.

As part of our review of all HR systems and processes globally, we are committed to ensuring that all our recruitment procedures, both internal and external, and our promotion and development approaches incorporate our commitment to diversity. Today we ensure that any external bodies we work with to support our hiring efforts have diverse candidate pools and attraction approaches that are open to all suitably qualified individuals and we ask questions at appointment around these important areas.

As a business, we are committed to meeting, at a minimum, the working rights and legislation requirements in each country in which we operate. In practice, we often exceed these requirements.

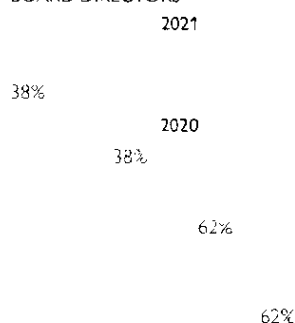
We are proud to be a Living Wage employer, and are aligned to the local definition of Living Wage in all our geographies, exceeding this level for all permanently employed colleagues in all roles. We are aligned to the regulatory requirements in all geographies around gender pay equality.

CHEMRING IN THE COMMUNITY

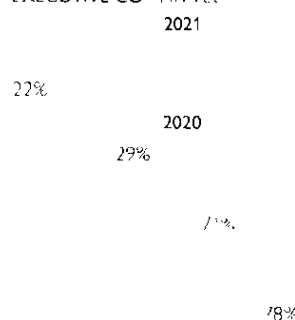
We recognise that each of the Group's businesses has an important role to play in its local community. We have a recognised community investment policy, which confirms our commitment to support selected charitable causes with a focus on the military and armed services and those linked to the local communities in which the Group's businesses operate. Each business has its own locally held charity budget and all 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. In particular throughout the COVID-19 pandemic 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.

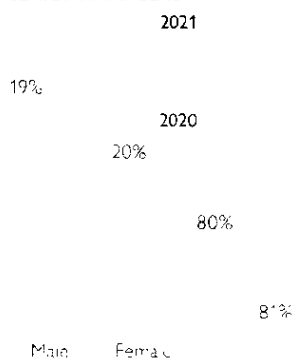
BOARD DIRECTORS



EXECUTIVE COMMITTEE



SENIOR MANAGERS



Fundraising for charities of importance to each business unit has been a focus in 2021 and supports our employee engagement focus.

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. Our relationship with the Institution of Engineering and Technology now spans four years with support provided directly to undergraduates studying for engineering and science-related degrees in the UK who have faced some level of hardship in achieving a place to study their chosen programme. These high calibre students are provided with financial support via a Chemring funded bursary and the opportunity for work experience and career support from the Chemring businesses in the UK.

Finally we appreciate that the COVID-19 pandemic has affected different groups in different ways. One key challenge was for parents of school-age children who have had to support homeschooling often alongside working from home themselves, or balancing being able to come to work. One issue many colleagues shared was access to appropriate technology to support the children with homeschooling. At Chemring we have been able to provide laptops and tablets which were no longer required within the business to colleagues who had a clear need to support their children. We now have an ongoing programme in the UK of providing surplus hardware to colleagues whose families will benefit from using it.

We are aware that on occasion our manufacturing activities can impact on the local community. The impact may be due to product sampling 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 a sovereign signatory of the potential impact of its operations on the local environment, and is addressing this challenge to environmental strategy.

CASE STUDY

Colleagues at Chemring Countermeasures UK ("CCM UK") pulled together over March to raise vital funds for a local homeless charity by collectively running or walking a marathon.

With eight teams and several individual runners, the full length of a marathon (26.2 miles) was divided up and split between the participants. Every runner/walker had the option of March to complete their allocated distance.

Participants were asked to donate £5 via a JustGiving fundraising page to support Alabare, the chosen charity. The charity, which is based in Salisbury, helps ensure that homeless veterans, or those at risk of becoming homeless, are kept off the streets. They help those in need to transform their lives, providing accommodation and support to help them build skills, confidence and opportunities to live a fulfilled life.

The charity was chosen due to its links with veterans. The fundraising challenge was selected to help support colleague health and wellbeing after being in and out of lockdowns for the past year.

After many generous donations, and together with previous fundraising initiatives, the CCM UK team was able to donate a much needed £1,000 to Alabare.

It held an awards event in April to recognise everyone's contribution. All participants received a thank you bag and medal. Rebecca Mulhern, Alabare's Fundraising & Development Manager, and Richard Lord, Alabare's Ambassador for Wiltshire, visited CCM UK and handed out their medals by way of a thank you for the donation.

The feedback from marathon March has been positive and this could become an annual fundraising event.

DOING THE RIGHT THING

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.

ETHICS & COMPLIANCE COMMITTEE

During 2020, the Board established an Ethics & Compliance Committee, chaired by Carl-Peter Forster, with the other members being the Group CH of Executive, the President of our US operations and the Group Legal Director & Company Secretary. The Committee has oversight of the Group's ethical business conduct and compliance framework, including our anti-bribery processes. It monitors the implementation of the framework across the Group and recommends areas for future improvement.

The Committee met three times during the year. At every meeting the Committee reviews and monitors compliance with our anti-bribery processes and reviews whistleblowing reports received and associated investigations. During the year the Committee also reviewed:

- the implementation plans and training material for the Chemring Compliance Portal;
- proposed arrangements for the independent audit of selected third party sales partners;
- our enhanced procedures for the handling and investigation of whistleblowing reports, and associated training for members of our leadership teams;
- an updated US Ethics Code and Chemring Code of Conduct; and
- a new policy on sales to customers located in higher risk territories.

The Chairman reports to the Board on the Committee's activities following each meeting.

OPERATIONAL FRAMEWORK

Our Operational Framework, which was implemented in January 2019, incorporated 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.

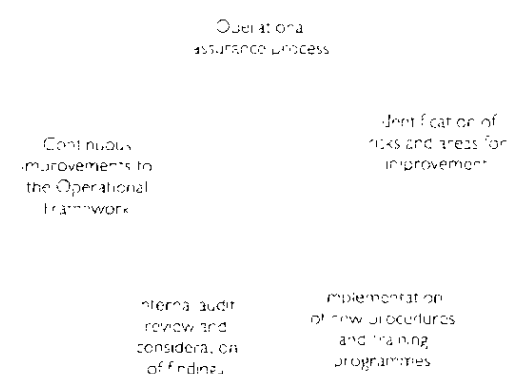
The leaders of each of our businesses are required to ensure that:

- 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.

All of our Operational Framework policies, procedures and associated training material are now hosted on the Chemring Compliance Portal. This innovative online system allows us to issue new and updated policies and training to employees across the Group targeted to their specific roles and enables us to monitor completion of mandatory training on a timely basis.

Our governance framework also includes a requirement for all businesses to complete an Operational Assurance Statement on a half-yearly basis, providing a detailed assessment of their compliance with the Operational Framework. The operational assurance process was strengthened during the year with the inclusion of a more comprehensive self assessment in relation to compliance with our HSE Management Framework. In addition, minimum Group-wide standards have now been set for compliance with key legal and compliance policies which the businesses are required to report against.

The output from the operational assurance 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, and is providing valuable input to our internal audit programme.



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. The Code is reproduced in Norwegian for our employees in Norway.

The Code was updated and reissued to all employees during the year, together with refreshed training material. We intend to supplement this with more detailed training on specific aspects of the Code, which will be disseminated through the Chemring Compliance Portal, over the next year.

CODE OF CONDUCT

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 or email or by accessing an external website. All issues reported are taken seriously and investigated appropriately, in a confidential manner. Third parties may also access our ethics reporting services.

During the year we further enhanced 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, with appropriate oversight from the UK and US legal departments. We also provided training to members of our leadership teams on how to identify whistleblowing reports which may emanate through less obvious channels and how to engage with employees who make whistleblowing reports.

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 office

A new policy on sales to customers located in higher risk territories was adopted in the year, which requires our businesses to prepare a risk mitigation plan for any proposed transaction in a territory rated less than 50 on Transparency International's Corruption Perceptions Index. This plan is required to address both bribery and corruption risk, and broader risks which may be encountered in doing business in such territories.

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 or in customer-facing roles;
- 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.

ETHICS AND BUSINESS CONDUCT continued

ANTI-BRIBERY AND CORRUPTION continued

A BACM 'Pocket Guide' is issued to all employees across the Group which provides 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 bi-annual basis, confirming that all policies and procedures within BACM have been complied with and providing supporting information to demonstrate compliance. BACM Compliance Certificates are reviewed by the Ethics & Compliance Committee following each submission.

We recognise that the appointment of third party sales partners in our roles to market can present particular bribery and corruption risks, and we therefore implement enhanced anti-corruption procedures for the engagement of sales partners where there is a genuine business need 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;
- due diligence reports from external consultants for higher risk appointments;
- a full annual reappointment process for all retained sales partners, including re-commissioning 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.

The review and approval processes for our third party sales partners have now been automated through the Chemring Compliance Portal. These processes were previously paper-based and the new system enables us to adopt a more consistent approach to the application of our due diligence and approval processes across the Group. We are also in the process of transitioning many of our third party service providers and higher risk suppliers on to the new system.

The Chemring Compliance Portal also incorporates a module for employees to seek approval online prior to giving or receiving gifts and hospitality or making charitable donations on behalf of the business.

During the year we instigated a programme under which certain of our third party sales partners will be subject to auditing an external consultant. One audit was completed during the year and a second is in progress. These audits will help to further strengthen our existing anti-bribery and corruption processes.

Compliance with BACM procedures continues to be a core aspect of PricewaterhouseCoopers ("PwC") 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.com.

We fully support 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.

DELIVERING GROWTH, MARGIN IMPROVEMENT AND STRONG CASH GENERATION

Andrew Lewis
Group Finance Director

“Our focus on operational delivery and cash generation is allowing us to invest for growth organically, and in 2021 inorganically for the first time under the leadership of the current management team.”

NET DEBT

£26.6m

(2020: £48.2m)

UNDERLYING OPERATING PROFIT MARGIN

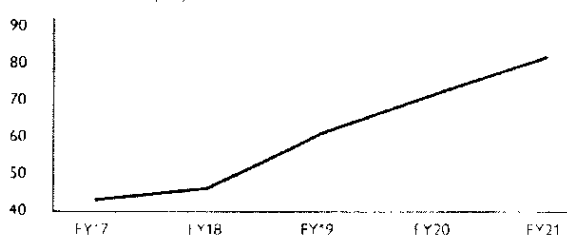
14.6%

(2020: 13.6%)

Our focus in 2021 continued to be on improving operational execution and delivering growth in our Sensors & Information segment. Overall 2021 performance was in line with our expectations despite the foreign exchange headwind caused by the weakening US dollar. On a constant currency basis both segments made operational and financial progress.

In the Sensors & Information segment, Roke has again recorded double digit growth in orders, revenue and operating profit, with the market continuing to be positive. The acquisition of the Cubica Group was completed in June 2021, which creates further opportunities to enhance and further accelerate growth in Roke. In addition, there has been continued progress on the US Sensors Programs of Record with with \$69m of further delivery orders received for the next phase of the \$200m HMDs IDIQ contract and an initial delivery order of \$16m received in October 2021 for the sole source EMB-2 framework contract which is valued at up to \$99m and will see deliveries being made in the final quarter of FY22 and FY23, with an estimated completion date of December 2023.

ROKE REVENUE (£m) – LAST FIVE YEARS



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

FINANCIAL REVIEW continued

GROUP FINANCIAL PERFORMANCE

In 2021 the Group successfully navigated a number of operational and financial challenges, including foreign exchange, delays in the US DoD procurement process, labour (in particular US) availability, various supply chain and inflationary pressures. These headwinds are likely to continue in 2022 and the Group will continue to work to mitigate their impact.

The US dollar has weakened in the year with the average exchange rate to sterling increasing from \$1.28 to \$1.38. Of the Group's revenue, 53% was US dollar denominated (2020: 54%). On a constant currency basis the Group's revenue was up 1% to £408.0m, underlying operating profit was up 10% to £60.1m and underlying earnings per share was up 17% to 17.7p. A summary of the impact of the exchange rate movements on the key metrics at a Group and segmental level is shown in the table below.

	At constant currency		As reported		2020 (£m)
	2021 £m	Change	2021 £m	Change	
Group					
Revenue	408.0	+1%	393.3	7%	402.5
Underlying EBITDA	79.4	+6%	76.4	+2%	74.6
Underlying operating profit	60.1	+10%	57.5	+5%	54.7
Underlying earnings per share	17.7p	+17%	16.9p	+12%	15.1p
Sensors & Information					
Revenue	151.5	+10%	146.6	+7%	137.2
Underlying EBITDA	35.4	+15%	34.4	+12%	30.7
Underlying operating profit	32.6	+19%	31.6	+15%	27.4
Countermeasures & Energetics					
Revenue	256.5	+3%	246.7	7%	265.3
Underlying EBITDA	58.4	+3%	56.1	+1%	56.5
Underlying operating profit	41.9	+3%	40.0	+0%	39.9

Order intake across the Group has remained robust at £431.0m (2020: £436.6m) despite the impact of the weaker US dollar, with Rose seeing order intake exceeding £100m for the first time and the release of further delivery orders on the HMDS IDIQ contract, as well as orders awarded to the US countermeasures businesses. The comparator year benefited from our Australian business receiving a \$107m multi-year contract for the supply of countermeasures for the F-35. Following the change of administration in the US and the continuation of COVID-19 working restrictions, the process of doing business with government departments has, on some occasions, slowed and as a result some Countermeasures & Energetics orders expected in 2021 were received later in the year than expected, which may impact the H1:H2 split in FY22.

	2021 £m	Change	2020 £m
Order intake (as reported)	431.0	+1%	436.6
Effect of using prior period foreign exchange rates	17.6		-
Order intake at constant currency	448.6	+3%	436.6
Impact of Australian multi-year contracts	(30.4)		(51.0)
Adjusted order intake	418.2	+10%	381.6

Revenue for the year was down 2% to £393.3m (2020: £402.5m), driven by strong performance in the Sensors & Information segment, offset by a foreign currency headwind.

The underlying operating profit of £57.5m (2020: £54.7m) resulted in an underlying operating margin of 14.6% (2020: 13.6%). The improved margin compared to 2020 primarily reflects the growth of the higher margin Sensors & Information segment and the continued focus on improved operational execution throughout the Group, particularly at the UK countermeasures site.

UNDERLYING OPERATING PROFIT (£m)

			54.7	57.5
		44.0		
	31.5	31.0		

FY17	FY18	FY19	FY20	FY21
------	------	------	------	------

Total finance expense fell to £1.6m (2020: £3.0m). This was achieved by the continued focus on the efficient management of working capital and lower levels of net debt throughout the year.

This resulted in an underlying profit before tax of £55.9m (2020: £51.7m). The effective tax rate on the underlying profit before tax was 14.8% (2020: 17.6%). The underlying earnings per share was 16.9p (2020: 15.1p).

Statutory operating profit was £50.4m (2020: £46.3m) and after statutory finance expenses of £1.6m (2020: £3.0m), statutory profit before tax was £48.8m (2020: £43.3m). The statutory tax charge totalled £7.3m (2020: £8.6m), giving statutory profit after tax of £41.5m (2020: £34.7m) and statutory earnings per share of 14.7p (2020: 12.3p).

A reconciliation of underlying to statutory profit measures is provided in note 3. The non-underlying costs relate to the amortisation of acquired intangibles costs relating to acquisitions, gains on the movement in the fair value of derivative financial instruments and the tax credit associated with these.

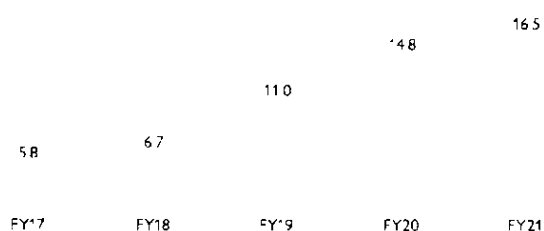
TAX

The underlying tax charge totalled £8.3m (2020: £9.1m) on an underlying profit before tax of £55.9m (2020: £51.7m). The effective tax rate on underlying profit before tax for the year was a charge of 14.8% (2020: 17.6%). The reduction in rate is due to the recognition of a deferred tax asset in respect of future US interest deductions of £4m, offset by the increase in the UK corporation tax rate from 19% to 25% which increased our deferred tax liability by £2m. Looking forward into 2022 we expect the Group effective tax rate to remain in the mid-teens. After which the change to the UK Corporation Tax rate will impact the annual current tax charge and this is expected to increase the Group effective tax rate to approximately 20%. The continuing statutory tax charge totalled £7.3m (2020: £8.6m) on a statutory profit before tax of £48.8m (2020: £43.3m).

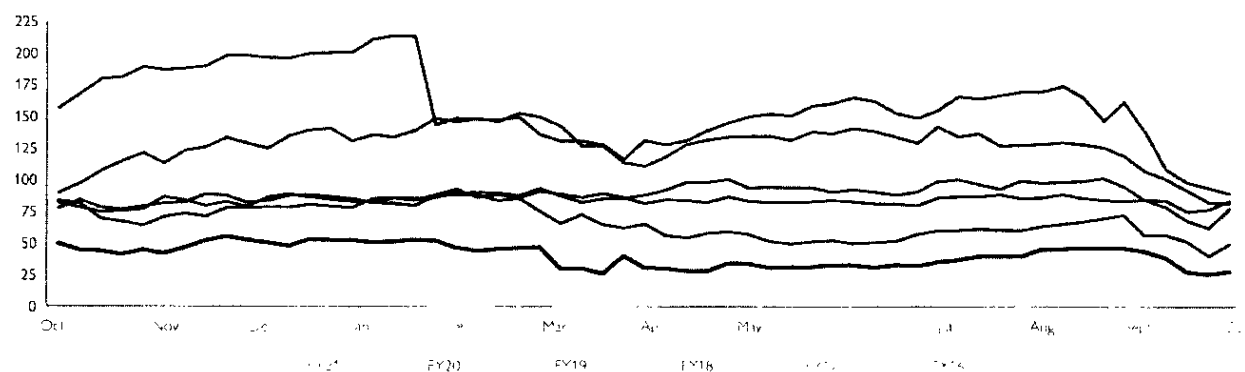
EARNINGS PER SHARE

Underlying earnings per share was 16.9p (2020: 15.1p) and diluted underlying earnings per share was 16.5p (2020: 14.8p). Statutory basic earnings per share was 14.7p (2020: 12.3p) and statutory diluted earnings per share was 14.4p (2020: 12.0p).

UNDERLYING DILUTED EPS (PENCE)



WEEKLY NET DEBT



WORKING CAPITAL

Working capital was £84.4m (2020: £85.1m), a decrease of £0.7m. As a percentage of revenue, working capital has remained consistent at 21% at 31 October 2021. We continued with our focus on commercial contracting, inventory levels and cash management. In absolute terms inventory and payables have fallen, reflecting the timing of customer orders in Countermeasures & Energetics, and trade receivables have remained flat. Year end trade receivable days of 25 (2020: 30) and trade payable days of 18 (2020: 26) demonstrate that working capital has been managed in a balanced and sustainable manner.

GROUP FINANCIAL POSITION

NET DEBT AND CASH FLOW

The Group's net debt at 31 October 2021 was £76.6m (2020: £18.2m), representing a net debt to underlying EBITDA ratio of 0.35x (2020: 0.65x). 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. The Group is working to achieve further improvements over the medium term. No defined benefit pension contributions were required in the year and none are expected in 2022, 2023 or 2024.

PENSION AND INTEREST CASH OUTFLOWS (£m)

	220					
		14.3	13.9			
				5.3	3.0	2.6
	FY16	FY17	FY18	FY19	FY20	FY21

Underlying operating activities generated cash of £80.0m (2020: £87.4m). Underlying cash conversion was 105% (2020: 110%) of underlying EBITDA, and an average of 108% on a rolling 24-month basis (2020: 108%). The Group has replaced its existing facility with a new £150m revolving credit facility in 2021, which runs to December 2024 and has an option to extend for a further three years at the lenders' discretion.

DEBT FACILITIES

The Group's principal debt facilities comprised a £150m revolving credit facility and a \$10m overdraft. These were established in July 2021 with a syndicate of six banks and run until December 2024 with three 'one-year' options to extend. The Group had £29.1m (2020: £86.4m) 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.

FINANCIAL REVIEW continued

RETIREMENT BENEFIT OBLIGATIONS

The surplus on the Group's defined benefit pension schemes was £13.7m (2020: £7.6m), measured in accordance with IAS 19 (Revised) Employee Benefits. The surplus relates to the Chemring Group Staff Pension Scheme (the "Scheme"), a UK defined benefit scheme whose assets are held in a separately administered fund. The Scheme was closed to future accrual in April 2012. The increase in the surplus has been driven by growth in the return seeking assets. The resilience of the Scheme's investment strategy has limited the impact of increased inflation expectations given the liability driven investment hedging strategy. An updated triennial valuation was completed as at 6 April 2021 and showed a technical provisions surplus of £3.8m, which represented a funding level of 104% of liabilities. The Group agreed with the trustees that no further deficit recovery payments are required. The next triennial valuation is due as at 6 April 2024 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:

- 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 ("CTS"), following a self-report made by CTS. The investigation relates to bribery, corruption and money laundering arising from the conduct of business by ChG and CTS, including any officers, employees, agents and persons associated with them. It is too early to predict the outcome of the SFO's investigation in which the Group continues to co-operate fully.
- On 10 August 2018 an incident occurred at our countermeasures facility in Salisbury. The Group responded immediately to support those who were injured, and maintains appropriate employers' liability insurance that we expect will provide full compensation in due course. We continue to fully support the Health and Safety Executive ("HSE") as it undertakes its investigation. Whilst provisions have been recorded for costs that have been identified (included within 'legal provisions'), 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.

ACQUISITION

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

The acquisition has been completed for a initial cash consideration of £70m, funded from Chemring's existing bank facilities. Further deferred consideration of up to £2.0m is payable in Chemring 1p ordinary shares in two tranches, subject to the former owners remaining employed in the Chemring Group) on the second and third anniversary of completion. The operating results and assets and liabilities of the acquired companies have been consolidated from 3 June 2021.

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 £28.0m (2020: £35.6m) was spent on property, plant and equipment. The most significant investment being the Tennessee capacity expansion programme to meet the expected demand for F-35 countermeasures, which has continued during the period. Construction work of buildings has completed and the supply of complex manufacturing equipment to site continues. We still expect to generate revenue from the new facility during the second half of our 2022 financial year.

RESEARCH AND DEVELOPMENT

R&D expenditure was £67.0m (2020: £67.0m). 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 investments in product development continues, particularly within Sensors & Information. An analysis of R&D expenditure is set out below.

	2021 £m	2020 £m
Customer-funded R&D	51.4	52.5
Internally-funded R&D		
– expensed to the income statement	8.5	4.5
– capitalised	2.1	5.0

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.

	2021 £m	2020 £m	Change %
Revenue	393.3	402.5	-2%
Effect of using prior period FX translation rates	14.7		
Revenue at constant currency	408.0	402.5	1%
Underlying operating profit	57.5	54.7	5%
Effect of using prior period FX translation rates	2.6		
Underlying operating profit at constant currency	60.1	54.7	10%

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

	2021			2020		
	Underlying	Non-underlying	Statutory	Underlying	Non-underlying	Statutory
Group – continuing operations:						
EBITDA (£m)	76.4	(0.9)	75.5	74.6	0.5	75.1
Operating profit (£m)	57.5	(7.1)	50.4	54.7	(8.4)	46.3
Profit before tax (£m)	55.9	(7.1)	48.8	51.7	(8.4)	43.3
Tax charge (£m)	(8.3)	1.0	(7.3)	(9.1)	0.5	(8.6)
Profit after tax (£m)	47.6	(6.1)	41.5	42.6	(7.9)	34.7
Basic earnings per share (pence)	16.9	(2.2)	14.7	15.1	(2.8)	12.3
Diluted earnings per share (pence)	16.5	(2.1)	14.4	14.8	(2.8)	12.0
Group – discontinued operations:						
(Loss)/profit after tax (£m)	—	—	—	(0.1)	0.1	—
Sectors – continuing operations:						
Sensors & Information EBITDA (£m)	34.4	—	34.4	30.7	—	30.7
Sensors & Information operating profit (£m)	31.6	(5.7)	25.9	27.4	(6.4)	21.0
Countermeasures & Analytics EBITDA (£m)	56.1	—	56.1	56.5	—	56.5
Countermeasures & Analytics operating profit (£m)	40.0	(2.1)	37.9	39.9	(2.5)	37.4

We present a measure of constant currency revenue and operating profit. This is calculated by translating our results for the year ended 31 October 2021 at the average exchange rates for the comparative year ended 31 October 2020.

The Group manages its financial 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 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 named 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 comprise:

- amortisation of acquired intangibles of £6.2m (2020: £8.9m)
- costs relating to acquisitions of £1.6m (2020: £m)
- gain on the movement in the fair value of derivative financial instruments of £0.7m (2020: £0.5m) and
- tax impact of adjustments of £1.0m credit (2020: £0.5m credit)

Andrew Lewis
Group Finance Director
14 December 2021

MANAGING RISK

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

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 Connor (President, US),
- Sarah Ellard (Group Legal Director & Company Secretary),
- Andrew Lewis (Group Finance Director),
- Steven Messam (Group HSE Director) and
- Clancy Murphy (Chief People Officer)

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.

KEY ROLES AND RESPONSIBILITIES FOR THE GROUP'S RISK MANAGEMENT STRATEGY

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 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

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

THE BOARD

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

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, drawing 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:

- In response to the changing environment, our CV-19 Playbook, which was introduced in 2020 and incorporates all of our Group-wide controls for the management of CV-19-related risks within our business operations, has been updated and reissued on a regular basis.
- Our HSE Management Framework has been updated and we have implemented new standards in relation to asset integrity and the management of travel risk.
- We have enhanced our HSE data collection and reporting through our EcoOnline system and are in the process of implementing a new Group-wide maintenance management system.
- Our anti-bribery and corruption procedures have been further enhanced by the implementation of the Chemring Compliance Portal.
- A new policy on sales to higher risk customers located in territories has been introduced under our Operational Framework.
- We have established the Chemring Security Committee and implemented additional IT and cyber-security standards.
- Our internal audit programme has been refined to include thematic reviews in key risk areas.

Our risk management systems were reviewed by PwC as part of the internal audit programme during the year. PwC concluded that our risk management structures and processes were fit for purpose and a number of good practice areas were identified. Their recommendations for further enhancements to our processes were considered by the Risk Management Committee and, as a consequence, we intend to develop our risk rating methodology by expanding the number of impact and likelihood ratings over the year ahead in order to provide greater distinction between relative risks and facilitate prioritisation of key mitigation actions.

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 64 to 71.

CV-19

The management of risks associated with CV-19 continued to be a focus during the year. Whilst the Group's operations have not been significantly impacted by CV-19, we continue to take all appropriate actions to protect and safeguard our employees, and ensure continuity of our businesses.

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 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 we are still endeavouring 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 enhancing our internal risk management processes to ensure that we are in a position to report against the recommendations of the Task Force on Climate-related Financial Disclosures from 2022 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, which also consider the assurance processes in place for key internal controls. 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.

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.

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.

OVERVIEW OF PRINCIPAL RISKS

The table below summarises the Group's principal risks and uncertainties, and identifies how each links to values and our strategic objectives, and whether the trend in the risk profile from the Group's perspective increased, decreased or remained stable during the year.

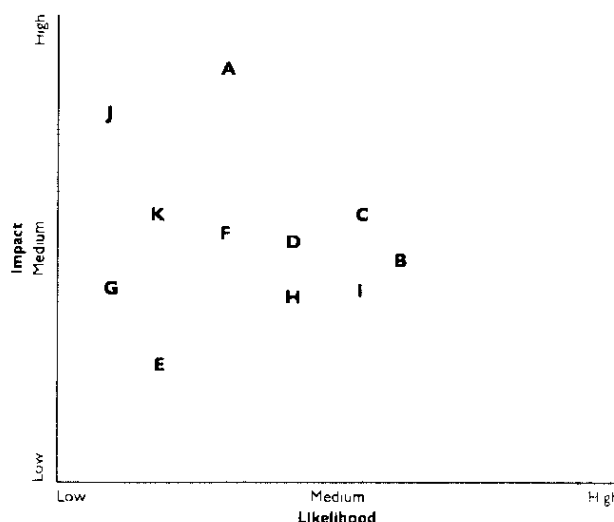
Principal risk/uncertainty	Our values	Strategic objectives	Change in risk profile in the year
A Occupational and process safety			
B Environmental laws and regulations			
C Market			
D Political			
E Contracts			
F Technology			
G Financial			
H Operational			
I People			
J Compliance and corruption			
K Cyber security			
Target growing segments	Safety		
Win market share	Excellence		
Grow our US business	Innovation		

RISK PROFILE AND HEAT MAP

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 further progress on the implementation of the Group's three year HSE strategy and an increased focus on asset integrity within our operations.
- Risks associated with environmental issues have increased with the increased focus on the environmental impact of our businesses.
- Market-related risk has increased, reflecting the potential for future defence budget constraints amongst our key customers as a consequence of COVID-19 and the potential impact of the change in the US administration.
- Operational risk has increased as the US Government's proposed mandatory COVID-19 vaccination requirement for employees of certain US Government contractors has the potential to impact our US businesses.
- People-related risk in relation to resourcing has increased particularly in the US where buoyant demand in the employment market has made it more difficult to recruit and retain employees.
- Financial risks have continued to reduce, reflecting the Group's strong cash generation and lower levels of indebtedness.
- The inherent risk associated with cyber threats and system failures continues to increase, 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.

The heat map below illustrates the relative inherent and residual positioning of our principal risks from an impact and likelihood perspective.



		INHERENT RISK:	High	Medium	Low
		TREND:	Increasing	Stable	Decreasing
HEALTH, SAFETY AND ENVIRONMENT RISKS					
A. OCCUPATIONAL AND PROCESS SAFETY					
Risk and potential impacts	Mitigation actions/factors		Risk appetite: Low		
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 litigation for workplace injuries and fatalities.	- Safety reinforced as a core value. - Continued emphasis on the 'journey to Zero harm' and 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 accident hazard analysis process adopted across the Group. - Asset integrity review completed using external consultants at higher hazard sites and new asset integrity standard adopted. - Review of our electrostatic discharge ('ESD') hazards has commenced, which will enable ESD protocols and control plans. - Incident investigation and crisis management standards adopted. - Process established for Group-wide review of learnings from significant incidents. - Occupational Health, Safety and Wellbeing and Technical Safety Committees established. - Increased capital investment in other facilities to improve safety and reliability.		Change during the year and outlook Through the implementation of our major incident 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 have strengthened our asset integrity programmes and introduced an enhanced process for sharing of learnings from significant incidents. We continue to invest in new automated production systems and improving process controls for our legacy operations. Our total recordable injury frequency rate reduced to 0.67, compared to 0.85 in 2020. Two injuries were sustained from energetic incidents during the year compared to one with no dent in the prior year. We hope to see further improvements in process safety in FY22 as we continue with our capital investment programme.		
Example key risk indicators	Link to values		Link to strategy		
- Total recordable injury frequency rates - Number of process safety events - Number of near miss reports			- Target growing segments - Win market share		
			See also: Health and safety on pages 43 to 45		
B. ENVIRONMENTAL LAWS AND REGULATIONS					
Risk and potential impacts	Mitigation actions/factors		Risk appetite: Low		
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 purchased for certain risks. - Environmental consultants retained to manage legacy indemnification obligations for site remediations. - Sustainability and Environmental Committees established.		Change during the year and outlook The sale and closure of several sites during the last few years has reduced the Group's overall exposure to environmental risks. However, we maintain financial liability for environmental remediation of certain sites formerly owned by the Group, most notably those occupied by the divested munitions businesses in Belgium and Italy. Environmental risks continue to increase with the increased focus on climate change and the environmental impact of all businesses. We have implemented a more centralised approach to the management of our environmental performance as part of our ESG strategy, recognising that minimising our environmental impact and addressing climate change-related risk is becoming increasingly important.		
Example key risk indicators	Link to values		Link to strategy		
- Energy and water utilisation - Volume of waste produced - Number of environmental incidents			Target growing segments		
			See also: Environment on pages 46 to 48		

PRINCIPAL RISKS AND UNCERTAINTIES continued

STRATEGIC RISKS

C. MARKET RELATED

Risk and potential impacts

Defence spending depends on a complex mix of political considerations, budgetary constraints and the requirements of the armed forces to address specific threats and performance requirements. 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 a fall in 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.
- Logistics 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 undertake trading profitably during periods of lower order intake. Trading performance will deteriorate and assets may be impaired.

Example key risk indicators

- Defence budget cuts
- Reductions in order intake
- Deterioration in profitability

Mitigation actions/factors

- 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 to 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 & Emergencies and Sensors & Information segments.
- Increased collaboration between businesses across the Group on establishing shared routes to market.

Link to values

Risk appetite: Low to moderate

Change during the year and outlook

We recognise that the COVID-19 pandemic could impact defence budgets globally and whilst not immune to this, our businesses are expected to remain relatively resilient in the near term. The long-term outlook for defence spending is less clear and we expect further clarity over the next year.

Closer collaboration between our four businesses is creating a joined up customer approach which is enabling us to better promote our global capabilities.

Link to strategy

- Target growing segments
- Win market share
- Grow our US business

See also: Target markets on pages 24 and 25

D. POLITICAL

Risk and potential impacts

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.

Example key risk indicators

- Political changes
- Suspension or withdrawal of export licences
- Trade imbalances
- Reductions in order intake

Mitigation actions/factors

- Relationships maintained at practical level in key countries and with senior customer representatives.
- Financing arrangements implemented, including letters of credit and advance payment, for contracts with high risk customers.
- Political risks insurance provided in certain circumstances.
- Continued focus on the development of commercial products and services in the Group, particularly in key home territories.

Link to values

Risk appetite: Low to moderate

Change during the year and outlook

We have refocused our business development and marketing activities in our key home markets in the multiple segments in which we operate.

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 long-term implications over the next year.

Link to strategy

- Target growing segments
- Win market share
- Grow our US business

See also: Target markets on pages 24 and 25

STRATEGIC RISKS continued

E CONTRACT RELATED

Risk and potential impacts

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 procure 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.

Example key risk indicators

- Duration of contract claim terminations
- Increase in working capital
- Delays in customer payments
- Number of bonds or guarantees issued

Mitigation actions/factors

- 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.

Link to values

Risk appetite: Moderate

Change during the year and outlook

The implementation of the Operational Framework has significantly increased our visibility of commercial and contracting practices across the Group, and is enabling us to manage contractual risk exposures more effectively.

Link to strategy

- Target growing segments
- Market cost share
- Grow our US business

F TECHNOLOGY

Risk and potential impacts

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 required standards to satisfy volume or 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 operational impacts and may result in obsolescence or loss of future business.

Example key risk indicators

- Reduction in R&D expenditure
- Delays in R&D programmes
- Delays in qualification of products
- Loss of production contracts
- Emergence of new competitors and disruptive technologies

Mitigation actions/factors

- Close relationships maintained with customers on all key future programmes.
- New Product Development Policy and procedures adopted to align the approach to future technology investments across the Group.
- Technology investments aligned with the five-year plan.
- Working groups established to drive and co-ordinate technology growth in conjunction with our core businesses & Energetics and Sensors & Information.

Link to values

Risk appetite: Moderate

Change during the year and outlook

Innovation is one of our core values.

Good progress continues to be made on the US Programme of Record and this will continue to be a major area of focus in the year ahead.

Rose continues to see strong growth in its R&D service activities and is positioning itself to exploit growing opportunities in the commercial sector.

Link to strategy

- Target growing segments
- Win market share
- Grow our US business

PRINCIPAL RISKS AND UNCERTAINTIES continued

G. FINANCIAL RISKS

Risk and potential impacts	Mitigation actions/factors	
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's 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 December 2024. - Regular monitoring of actual and forecast financing 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.	Risk appetite: Moderate Change during the year and outlook The Group's revolving credit facilities were refinanced during the year and extended to December 2024. The year-end bank covenant of net debt/ EBITDA was 0.3x, well within the covenant limit of 3.0x. At the year end, the legacy UK defined benefit pension scheme was £13.7m in surplus (on an IAS 19 basis). The triennial actuarial valuation of the scheme was carried out as at April 2021 confirmed that the scheme was £3.8m in surplus at that date. No further contributions will therefore be required before the next valuation as at April 2024.
Example key risk indicators	Link to values	Link to strategy
- Deterioration in bank covenants - Increase in net debt - Interest rate increases - Foreign exchange rate movements - Increase in bad debts	Financial strength	- Target, growing segments - Win market share - Grow our US business

See also: Financial review on pages 57 to 61

H. OPERATIONAL RISKS

Risk and potential impacts	Mitigation actions/factors	
The Group's manufacturing activities may be exposed to business continuity risks arising from plant failures, supplier interruptions, quality issues or large scale employee absence(s). 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 - Continued capital investment in legacy facilities to improve safety and reliability - Asset integrity programme implemented - Detailed plans developed for all significant capital investment projects and additional dedicated resources employed to oversee key projects - CV-19 Payback implemented and supply chains being actively managed to minimise the impact of CV-19 related disruption - Business interruption risks assessed where appropriate	Risk appetite: Low to moderate Change during the year and outlook 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. Commissioning of the new automated manufacturing facilities in Tennessee continues to progress in line with plan. Capital investment projects progressed at our facilities in Scotland and Norway, and further projects are planned for 2022. The US Government intends to mandate that employees of certain US Government contractors must be vaccinated against CV-19. This has the potential to impact on US businesses, which may be required to terminate the employment of unvaccinated employees.
Example key risk indicators - Number of process safety events - Reduction in right first time and on-time delivery rates - Increase in unplanned delays - Increase in quality issues and customer complaints - Reduction in capital expenditure - Delay in commissioning of facilities	Link to values - Safety - Quality - Reliability - Innovation - Sustainability	Link to strategy - Target growing segments - WFI market share - Grow our US business

See also: Group Chief Executive's review and health and safety on pages 14 to 17 and 43 to 45

PRINCIPAL RISKS AND UNCERTAINTIES continued

I. PEOPLE RISKS

Risk and potential impacts

There is a risk that the market for talent in key areas of expertise becomes more challenging. Adding 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 the 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.

Example key risk indicators

- Increase in employee turnover
- Number of unfilled vacancies
- Employee sentiment scores

Mitigation actions/factors

- Chemring values of Safety, Excellence and Innovation established
- 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 Chemring culture.
- Employee Voice real-time engagement tool deployed across the Group
- Talent framework and succession planning process implemented
- Incentive arrangements enhanced to encourage collaboration and create a Group focus at senior level

Link to values

Risk appetite: Moderate

Change during the year and outlook

Resourcing challenges increased over the year particularly in the US where buoyant demand in the employment market made it more difficult to recruit and retain employees.

We continued to make good progress on the implementation of our development framework during the year, with over 340 new managers and supervisors having participated in a structured development programme.

We also continue to focus on communications using a wide range of formal and informal channels 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. This was supplemented by a Group-wide culture check-in during the year.

Link to strategy

- Target growing segments
- Win market share

See also: Our people on pages 49 to 53

LEGAL AND COMPLIANCE RISKS

J. COMPLIANCE AND CORRUPTION

Risk and potential impacts

The Group operates in over 60 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 departmental and reputational damage.
- Loss of key operating permits and approvals could result in temporary or permanent site closures and loss of business.

Example key risk indicators

- Regulatory intervention and penalties
- Non-renewal/revocation of licences and permits
- Breaches of policies
- Non-completion of compliance training
- Increase in whistleblowing reports

Mitigation actions/factors

- Errors & 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 resources 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.
- New policy adopted to manage risks associated with sales to customers in higher-risk territories.

Link to values

Risk appetite: Low

Change during the year and outlook

The Operational Framework and the associated operational assurance process has fundamentally changed the management of legal and compliance risks across the Group. The assurance process was enhanced during the year to incorporate minimum standards which are required to be adopted in key compliance areas.

Good progress was made during the year on the implementation of our Group-wide online compliance system - the Chemring Compliance Portal. The system hosts our Operational Framework policies and associated training material and automates our anti-bribery processes.

Link to strategy

- Target growing segments
- Win market share

See also: Ethics and business conduct on pages 54 to 56

REPUTATIONAL RISKS

K. CYBER RELATED

Risk and potential impacts

Cyber-security and related risks are a key emergent area 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 system 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.

Example key risk indicators

- Number of phishing emails reported
- Number of system outages and failures
- Software updates not installed promptly

Mitigation actions/factors

- Threat assessment completed and a action plan to counter the Group's greatest major threats implemented.
- Security Committee established.
- Group-wide cyber-security standard adopted based on the US DoARS NIST/CMMC Level 3 standard and 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.
- Third security systems review included within new internal audit programme.
- Cyber insurance policy in place.

Link to values

Risk appetite: Low

Change during the year and outlook

We have an ongoing programme to address IT and cyber security but this threat in this area continues to evolve and we therefore need to ensure that our security arrangements evolve appropriately in response.

Link to strategy

- Target growing segments
- Win market share

VIABILITY STATEMENT

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

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 73.

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.

KEY FINANCIAL METRICS

	2021	Coverage
Revolving credit facility and overdraft	£157.3m	
Undrawn committed borrowing facilities	£128.1m	
Leverage ratio	0.37x	Less than 3x
Interest cover ratio	54x	Greater than 4x

The revolving credit facility and overdraft run to December 2024 with three "one-year" options to extend at the lenders' discretion. The Group was in compliance with the covenants throughout the year.

ASSESSMENT OF NEAR-TERM PROSPECTS

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 2025, being at least 12 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.

SENSITIVITY ANALYSIS

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 and considered the principal risks and uncertainties discussed in the strategic report. These sensitised scenarios show headroom on all covenant test dates for the foreseeable future.

In addition to the above, the directors continue to monitor developments with, and 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 legislation on social distancing measures, and the impact of the current situation on the Group's supply chain. The CV-19 outbreak is not currently having any material impact in relation to these risks or any other potential impacts, however, the directors are monitoring the situation closely.

CONFIRMATION OF GOING CONCERN

After consideration of the above, the directors have a reasonable expectation that the Group and Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

LONG-TERM VIABILITY

ASSESSMENT OF LONG-TERM PROSPECTS

The directors have assessed the Group's viability over a three year period to October 2024 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 2024.

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

PRINCIPAL RISKS

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. Chemring's operations have been designated as critical to the defence and national security industrial base in all territories that we operate in. All our businesses remain open with business continuity plans mobilised at every location.

SENSITIVITY ANALYSES

Sensitivity analyses were run to model the financial and operational impact of plausible downside scenarios of these risk events occurring individually or in combination. These included the impacts of a further deterioration in the macroeconomic environment, including how CV-19 may impact the economy and future government policy and spending, under-performance in executing the Group's strategy, failure to achieve operational improvement 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.

CONFIRMATION OF VIABILITY

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

NON-FINANCIAL INFORMATION STATEMENT

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.com.

REPORTING REQUIREMENT	RELEVANT POLICIES WHICH GOVERN OUR APPROACH	WHERE TO READ MORE	PAGE
ENVIRONMENTAL MATTERS	- Group health, safety and environmental policy	- Introduction to sustainability - Environment	39 46
EMPLOYEES	- People policy - Group health, safety and environmental policy - Directors' remuneration policy - Whistleblowing policy - Code of Conduct	- Stakeholder engagement - Our people - Health and safety - Ethics and business conduct - Directors' remuneration report	21 49 43 54 94
SOCIAL AND COMMUNITY MATTERS	- Community investment policy - Code of Conduct	- Our people - Ethics and business conduct	49 54
RESPECT FOR HUMAN RIGHTS	- Modern Slavery Act Statement - People policy - Supplier Code of Conduct - Code of Conduct	- Our people - Ethics and business conduct	49 54
ANTI-BRIBERY AND CORRUPTION	- Anti-corruption policy - Bribery Act Compliance Manual - Policy on sales to customers located in higher-risk territories - Offset policy - Code of Conduct	- Ethics and business conduct	54
BUSINESS MODEL		- What we do - Investment case - Business model - Target markets - Strategy	7 10 18 24 26
STAKEHOLDERS		- Stakeholder engagement - Corporate governance report	21 76
RISK MANAGEMENT		- Risk management - Principal risks and uncertainties	62 64
NON-FINANCIAL KEY PERFORMANCE INDICATORS		- Key performance indicators - Health and safety - Environment - Our people	28 43 46 49

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

BOARD OF DIRECTORS

EXPERIENCED LEADERSHIP

CARL-PETER FORSTER ■ ■
Non-Executive Chairman

BOARD LENGTH OF SERVICE
(as at 14 December 2021):
5 years, 7 months

EXPERIENCE:

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

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 and Rover).

Carl-Peter is currently the Senior Independent Director at Bencook International Group PLC, and was previously a non-executive director of M. R. C. and Rexam P. C. Roast-Royce Ltd and Cosworth Ltd. He is also Chairman of the Heilbronn AG Shareholder Committee and the Kinexon GmbH Advisory Board, a member of the Boards of The Mobility House AG and Energy Transition Partners B.V. and holds advisory roles with Geely Group and Rock Tech Lithium, Inc. He previously served as Chairman of The London Electric Vehicle Company Ltd and Friedland Technology and as a member of the Boards of Volvo Cars Corporation and Geely Automotive Holdings.

MICHAEL ORD
Group Chief Executive

BOARD LENGTH OF SERVICE
(as at 14 December 2021):
3 years, 6 months

EXPERIENCE:

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

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
Group Finance Director

BOARD LENGTH OF SERVICE
(as at 14 December 2021):
4 years, 11 months

EXPERIENCE:

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

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 plc, 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 at Rotork plc and before that he was a Director at PricewaterhouseCoopers in Bristol and New Zealand.

SARAH ELLARD
Group Legal Director
& Company Secretary

BOARD LENGTH OF SERVICE
(as at 14 December 2021):
10 years, 3 months

EXPERIENCE:

- Legal, compliance and governance expertise
- Chartered Secretary

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			
▲ Audit Committee ■ Nomination Committee ■ Remuneration Committee ○ Director Chairman			
LAURIE BOWEN ▲ ■ ■ ■ Non-Executive Director	ANDREW DAVIES ▲ ■ ■ ■ Senior Independent Non-Executive Director	STEPHEN KING ▲ ■ ■ ■ Non-Executive Director	FIONA MACAULAY ▲ ■ ■ ■ Non-Executive Director
BOARD LENGTH OF SERVICE (as at 14 December 2021): 2 years, 5 months	BOARD LENGTH OF SERVICE (as at 14 December 2021): 5 years, 7 months	BOARD LENGTH OF SERVICE (as at 14 December 2021): 3 years, 1 month	BOARD LENGTH OF SERVICE (as at 14 December 2021): 1 year, 6 months
EXPERIENCE: • Board experience at Chief Executive level • International experience in the technology sector	EXPERIENCE: • Board experience at Chief Executive level • Extensive knowledge of the international defence industry	EXPERIENCE: • Executive and non-executive board experience in public and private companies • Chartered Accountant	EXPERIENCE: • Board experience at Chief Executive level and in non-executive positions • International and operational experience in high growth industries
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 Teecom Italia, a Sparkle in the Americas, a subsidiary of the international wireless brand of Telecom Italia. Laurie was previously a non-executive director at customer experience technology provider Transcom Worldwide A/S.	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 four decades. He was formerly Chief Executive of Wates Group Ltd.	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. 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 Signature Aviation plc and The Wren Group plc, and a non-executive director and Senior Independent Director at TTE 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 was appointed as a non-executive director on 3 June 2020. She is also Chair of CG plc* and a non-executive director of Ennexus plc*, Core Energy plc* and FPL Group Ltd. Fiona previously held a number of senior operational roles with the oil and gas sector including a two-year appointment as Chief Executive of E.ON Energy plc in 2017.

* All appointments are subject to shareholder approval.

EMBEDDING A ROBUST GOVERNANCE FRAMEWORK

Carl-Peter Forster
Chairman

“Our Operational Framework and our Code of Conduct promote a set of policies, practices and behaviours which are fully aligned with Chemring’s purpose, values, vision and strategy.”

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.

On behalf of the Board, I am pleased to present the corporate governance report for the year ended 31 October 2021. The report explains how the Board operates and how corporate governance is addressed in Chemring.

THE 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 page 98.

PURPOSE, VALUES AND CULTURE

The Board recognises its role in establishing the purpose and values of the Group, and embedding these throughout the organisation.

Our purpose at Chemring is to help make the world a safer place. Across physical and digital environments, our businesses and our employees deliver innovative protective technologies to detect and defeat ever-changing threats. Our purpose and our core values of Safety, Excellence and Innovation form the foundation for our strategy, our business and our organisation. Examples of our purpose in action are set out on pages 4 to 9.

Our Code of Conduct reflects our purpose and our values, and 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. The Code of Conduct was updated and reissued to all employees during the year.

During the year a culture “check-in” review was conducted on behalf of the Board. Discussions were held with a wide range of employees from across the Group in order to assess the changes in culture over the last two years. The key themes arising from the review were considered by the Board and action plans developed for driving further improvements in the culture.

GOVERNANCE AND OPERATIONAL FRAMEWORK

In 2020, we established an Ethics & Compliance Committee, which I 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 continues to maintain 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 54.

Our Operational Framework, which was implemented in 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, Laurie Bowen is designated as the non-executive director with responsibility for employee engagement on behalf of the Board. Mrs Bowen held a number of 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 these meetings has continued to be 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 20 to 23 and later in this report.

BOARD EFFECTIVENESS

With the easing of COVID-19 related restrictions during the year, the Board was able to resume in-person meetings on a more frequent basis. However, the Board as a collective was unable to visit as many sites as planned at the beginning of the year and we intend to resume this activity during 2022. Notwithstanding this, 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 develop the strong relationship established with our US Board in recent years, and whilst we were once again 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 significance of our US businesses, it is imperative that we maintain positive interactions with the US Board and, subject to any new travel restrictions which may emerge, we plan to resume our in-person engagement with two meetings in the US during 2022.

BOARD EVALUATION

Having completed a full externally-facilitated Board performance evaluation in late 2020, our evaluation this year was conducted internally. Further details of the process adopted and key actions arising out of the review are set out on page 86. These will be addressed as part of our continuing efforts to improve the effectiveness of the Board over the forthcoming year.

Carl-Peter Forster
Chairman
14 December 2021

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 2021, with the exception of provision 38 in relation to the alignment of executive directors' pensions with those of the wider workforce. As described on page 96, these will be aligned with effect from 1 November 2022.

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.com/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 88

(Audit Committee report)

NOMINATION COMMITTEE

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

See page 92

(Nomination Committee report)

REMUNERATION COMMITTEE

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

See page 94

(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

Assists the Group Chief Executive with oversight of the delivery of the Group's strategy, monitoring of the operational and financial performance of the businesses, allocation of resources across the Group, management of risk, and implementation of the Group's Operational Framework and governance policies.

The Group Chief Executive chairs the Executive Committee, which meets bi-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 Group Strategy and Corporate Development 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.com).

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 62

(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 54

(Ethics and business conduct)

SUSTAINABILITY COMMITTEE

Oversees the implementation of the Group's ESG strategy; monitors progress against agreed ESG targets and identifies further ESG-related initiatives.

See page 39

(Introduction to sustainability)

PURPOSE

Chemring's purpose is to help make the world a safer place. Across physical and digital environments, our exceptional teams deliver innovative protective technologies to detect and defeat ever-changing threats. Further details on our purpose in action and how it links to our strategy and values can be found on pages 4 to 9.

CULTURE AND VALUES

The Board is responsible for ensuring that the Company's culture is aligned with its purpose, values and strategy. We are committed to creating an inclusive culture across Chemring, where everyone does the right thing and takes personal responsibility for their actions. This culture is promoted through leadership and a strong 'tone from the top' and is embedded in our Code of Conduct and our Operational Framework, both of which bind our purpose, values, behaviour, policies and procedures, and provide the necessary governance to enable us to operate in a safe, consistent and accountable way.

The Chairman is responsible for ensuring that the Board demonstrates commitment to our values and culture by operating correctly and taking the right actions on behalf of shareholders and other stakeholders. The Group Chief Executive, supported by the Executive Committee and the business unit leadership teams, is responsible for ensuring that our values and culture are fully embedded within all aspects of our operations.

During the year a culture 'check-in' review was conducted on behalf of the Board. Discussions were held with a wide range of employees from across the Group in order to assess the changes in culture over the last two years. The key themes arising from the review were considered by the Board and action plans developed for driving further improvements in the culture. Further details can be found on page 50.

HOW THE BOARD MONITORS CULTURE

	ESTABLISHMENT OF CULTURE	MONITORING OF CULTURE
SAFETY	- HSE Policy, Management System framework and Strategy - Focus on "Journey to Zero Harm" and drive towards a proactive safety culture - Healthy Workplace Committee - Technical Safety Committee	- Monthly reporting to the Board on safety performance against key performance indicators, 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 the outcome of the Group's progress on establishing a proactive safety culture
EMPLOYEES	- Code of Conduct - Monthly video-blog by the Group Chief Executive and Group-wide communication programme - Diversity, equity and inclusion initiatives - Employee development programmes - Sustainability Committee and inclusion of ESG objectives in short and long-term incentive arrangements	- 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, and undertakes periodic culture 'check-ins' - Reporting to the Board on progress against established ESG targets - Board site visits (albeit these were restricted by CV-19 during the year)
GOVERNANCE AND BUSINESS CONDUCT	- Code of Conduct - Operational Framework - Ethics & Compliance Committee - Chemring Compliance Portal - Mandatory training programmes - Whistleblowing policy and procedures	- 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 improvements - The Group Legal Director 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	- Operational Framework and operational assurance process - Group Finance Manual - Risk Management Committee - Risk Management Policy and Framework - Internal audit programme	- 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 - Operational assurance statements are required to be submitted by the businesses on a half-yearly basis

CORPORATE GOVERNANCE REPORT continued

BOARD LEADERSHIP AND COMPANY PURPOSE continued

BOARD ACTIVITIES IN 2021

LEADERSHIP

- Monitored the continuing 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" and a culture 'check-in' review
- Completed the annual Board performance evaluation

FINANCIAL

- Monitored performance of the businesses against the 2021 budget
- Approved the 2022/2023 budgets
- Approved the half year results, and the annual report and accounts
- Approved the refinancing of the Group's revolving credit facilities
- Reviewed the Group's capital allocation policy
- Agreed a revised dividend strategy, approved the interim dividend and made a recommendation for the final dividend

PEOPLE AND CULTURE

- Received regular reports from the Remuneration Committee
- Considered feedback from Laurie Bowen, the non-executive director designated to engage with employees on the Board's behalf, on issues raised with Mrs Bowen by employees
- Reviewed the Group's talent framework and succession planning
- Reviewed the Group's diversity, equity and inclusion strategy
- Received feedback on employee sentiment across the Group

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

STRATEGY

- Approved the updated five-year plan and strategy for the Group
- Engaged in reviews of organic and inorganic growth opportunities across the Group
- Reviewed progress on the US Programs of Record
- Considered the implications for the Group of the UK Government's defence and security review
- Approved the acquisition of the Cubica Group

HEALTH, SAFETY, ENVIRONMENT AND SUSTAINABILITY

- Monitored health and safety key performance indicators on a monthly basis
- Received briefings on significant incidents and high potential near misses
- Monitored developments with regards to CV-19 and the potential impact on the businesses
- Approved the updated Group HSE Strategy and HSE Management System Framework, and reviewed progress against key objectives
- Approved additional HSE related investment at the Tennessee, Scottish and Norwegian facilities
- Approved the Group's ESG strategy and key targets and the establishment of the Sustainability Committee

GOVERNANCE, RISK AND REGULATORY

- 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 and the Ethics & Compliance Committee
- Reviewed the Group's digital transformation and cyber security strategies
- Received updates on key legal issues and regulatory matters impacting the Group
- Received regular updates on significant whistleblowing reports
- Reviewed the Company's compliance with the Code
- Approved the Group's Modern Slavery Act statement for 2021

HOW THE BOARD CONSIDERS STAKEHOLDERS IN ITS DECISION MAKING

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 the members of the company

The statement of compliance with section 172 is set out on pages 20 to 23, together with details of how the Board engages with stakeholders and how the Board monitors stakeholder interests. Set out below are some specific examples of how the Board considered stakeholders in their decision making during the year.

STRATEGY DEVELOPMENT

- The Board received detailed briefings on the UK Government's defence and security policy documents published in March 2021, comprising the Integrated Review, the Defence Command Paper and the Defence and Security Industrial Strategy. The UK Ministry of Defence and national security agencies are key customers for the Group and the policy documents provided valuable input into the Board's consideration of the Group's updated strategy and five year plan in July 2021. The board also considered the implications for the Group of the change in administration in the US and how the reallocation of funding priorities might impact on the Group's future strategy.
- The Board 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.

ACQUISITION OF THE CUBICA GROUP

- In considering and approving the acquisition of the Cubica group of companies during the year, the Board reflected on how the acquisition would be viewed by shareholders and how it would contribute to the longer-term success of Roke and the wider Group.
- The Board also considered how the acquisition would enable Roke to better serve its customers, a number of whom were also Cubica's customers and how employees at both Roke and Cubica might benefit from the opportunities provided for development and diversification within the larger combined organisation.

CAPITAL INVESTMENT PROGRAMMES AT COUNTERMEASURES USA, CHEMRING ENERGISTICS UK AND CHEMRING NOBEL

- In approving additional capital investment at the Countermeasures business in Tennessee, at Chemring Energetics UK and at Chemring Nobel during the year, the Board considered how we could continue to improve safety for the employees on these sites and strive to meet our key customers' future demand requirements. Feedback received from key customers in the US, the UK and Norway on the strategic importance and criticality of our operations was also considered by the Board.

DEVELOPMENT OF ESG STRATEGY

- The Board commissioned a materiality assessment during the year as part of the development of the Group's ESG strategy. This assessment identified the most significant economic, environmental, social and governance topics, from both a risk and opportunity perspective, for a selection of our stakeholders including shareholders, customers, suppliers and employees, and ranked them according to importance. This provided a key input to the the ESG strategy and development of ESG targets. Further details can be found on pages 39 to 42.

DIVIDEND POLICY

- In agreeing a new dividend strategy for the Group, the Board considered feedback received from investors on the overall capital allocation policy and the need for a sustainable but growing dividend which reflected the performance of the Group.

EXECUTIVE REMUNERATION

- In developing the updated directors' remuneration policy, the Remuneration Committee considered how the remuneration and incentive arrangements for the executive directors would align their interests with those of shareholders. Feedback was sought from the Group's larger shareholders on the proposed changes to the policy, further details of which are set out on pages 94 to 96.
- The Remuneration Committee also considered how the remuneration arrangements for the executive directors would be flowed down to the next level of management and how they compared with remuneration arrangements for employees more broadly across the Group, particularly with regards to salary increases, pension contributions and incentive arrangements.

BOARD LEADERSHIP AND COMPANY PURPOSE continued

EMPLOYEE ENGAGEMENT

Laurie Bowen is designated as the non-executive director who engages with employees on behalf of the Board. Mrs Bowen held a number of 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 each meeting was different due to the diversity of the businesses and the range of employees who participated in the discussions, the following topics were typically addressed at every meeting:

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

Feedback from these meetings was provided to the Board and will be considered, as appropriate, in future decision making.

The Board believes that Mrs Bowen'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 and periodic culture "check-ins", the Board receives meaningful input to its 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 21 and pages 49 and 50.

SHAREHOLDER ENGAGEMENT AND THE ANNUAL GENERAL MEETING

The Company operates a structured investor relations programme, focused largely around the half and full year results announcements. The Board receives reports from the Company's advisors on feedback received from existing and potential investors and analysts following meetings with the executive directors.

During the year, Laurie Bowen engaged with the Company's larger institutional shareholders regarding the proposed new directors' remuneration policy. Further detail on how the Remuneration Committee responded to the feedback received can be found on pages 94 to 96.

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.

As a result of CV 19 related restrictions, we were unable to hold the 2021 Annual General Meeting in person but shareholders were invited to submit questions to the Board ahead of the meeting. We are planning to hold the next Annual General Meeting in March 2022 in person in the usual manner subject to any new restrictions which may be imposed over the next few months as a consequence of CV 19. The Notice of Annual General Meeting, which will be sent to shareholders in January 2022, 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 on their business performance, future strategy, and key opportunities and challenges. The Board had planned to visit the Tennessee countermeasures facility in September and to meet in-person with our US Board but were prevented from doing so by CV 19 related travel restrictions.

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 intend to resume our programme of site visits in the coming year with visits planned to two of our US businesses.

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 four 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 internal stakeholders in the US and this is a key input into the annual strategy review.

DIVISION OF RESPONSIBILITIES

COMPOSITION OF THE BOARD AND INDEPENDENCE

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 significant business commitments, are set out on pages 74 and 75.

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.

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 of Energy Transition Partners B.V. In approving this appointment, the Board satisfied itself that, following the cessation of certain of his other appointments, the Chairman would continue 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 also 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

Manufacturing	8
Defence	6
Technology	6
International	8
Strategy	5
Marketing	5
Governance	5

CORPORATE GOVERNANCE REPORT continued

DIVISION OF RESPONSIBILITIES continued

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
- Devises 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

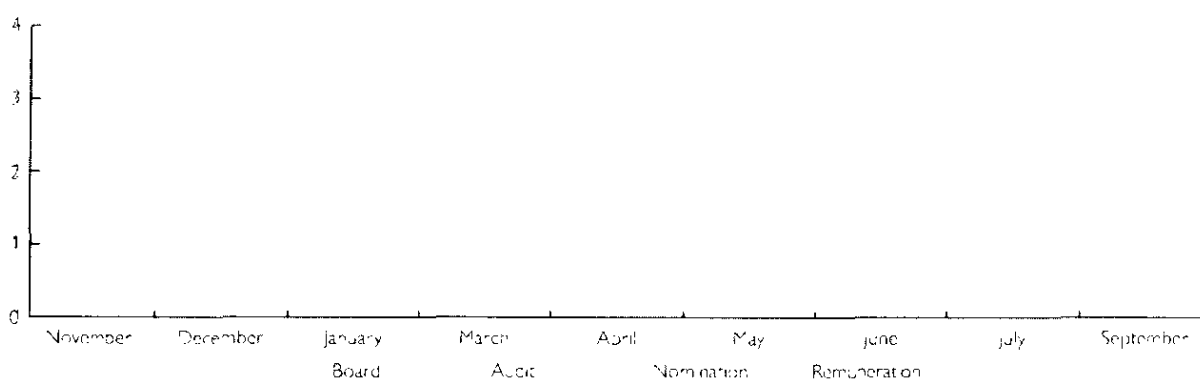
- Oversees legal matters and compliance across the Group
- Secretary to the Board and its committees
- Under the direction of the Chairman, responsible for maintaining good information flows within the Board and its committees
- Develops Board and committee agendas, and collates and distributes papers
- 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

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 82, at least once a year.

SCHEDULED BOARD AND COMMITTEE MEETINGS HELD DURING THE YEAR



ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

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 1 ad hoc meeting)	Audit Committee (5 scheduled meetings)	Nomination Committee (1 scheduled meeting)	Remuneration Committee (1 scheduled meeting)
Carl-Peter Forster	9(9)	5(5)	1(1)	1(1)
Laurie Bowen	9(9)	5(5)	1(1)	1(1)
Andrew Davies	9(9)	5(5)	1(1)	1(1)
Sarah Ellard	9(9)	5(5)	1(1)	1(1)
Stephen King	9(9)	5(5)	1(1)	1(1)
Andrew Lewis	9(9)	5(5)	1(1)	1(1)
Fiona MacAulay	9(9)	5(5)	1(1)	1(1)
Michael Ord	9(9)	5(5)	1(1)	1(1)

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

In addition to the scheduled meetings, one ad hoc Board meeting was convened to approve completion of the acquisition of the Cupica group of companies, which arose between scheduled meetings.

During the year, the Chairman met 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.

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 at least 33% of Board should be female. We remain committed to further improving diversity on the Board, 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 92 and 93.

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 Group Legal Director & 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 performance evaluation of the Board was externally facilitated in 2020 and an internal evaluation was therefore conducted during the year.

Questionnaires were sent to each of the directors for completion, with a focus on:

- Board leadership;
- operation of the Board and its committees;
- Board composition and succession;
- the Board's role in establishing the Company's purpose and values;
- strategy development;
- performance and risk monitoring;
- audit and internal control; and
- identification of other areas in which the Board could improve its effectiveness.

The responses were consolidated by the Group Legal Director & Company Secretary 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 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 Committees' focus on diversity, equity and inclusion and succession planning;
- 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;
- Review of monthly Board reporting.

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 123.

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 2021, taken as a whole, is fair, balanced and understandable. Furthermore, the Board believes that the disclosures set out on pages 1 to 73 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 2021 are set out on page 63.

OPERATIONAL FRAMEWORK

Our Operational Framework, which was implemented in January 2019, incorporates a broad range of policies and procedures which have 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, there is 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 is now an important input to our internal audit and risk management activities.

AUDIT

Details of the Group's external and internal audit activities can be found in the Audit Committee report on pages 88 to 91.

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 72.

AUDIT COMMITTEE REPORT

Stephen King
Chairman of the Audit Committee

AUDIT COMMITTEE MEMBERS

Stephen King (Chairman)

Laurie Bower

Andrew Davies

Fiona MacAulay

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 2020 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 2021 half year and full year results, and the external and internal audit activity during 2021.

MEMBERSHIP OF THE AUDIT 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 85.

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 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.

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. - The presentation of alternative performance measures. - The Group's going concern status and viability statements. - Financial Reporting Council thematic reviews.
RISK AND CONTROL ENVIRONMENT	- Effectiveness of the Group's systems of internal control. - Implementation of new ERP systems across the Group. - Department for Business, Energy and Industrial Strategy consultation on audit and corporate governance reforms.

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 strategy and plan
- Effectiveness of the internal auditors and their key findings

FINANCIAL REPORTING

A summary of the significant issues considered in relation to the 2021 financial statements is set out overleaf.

The Committee also reviewed the following reports issued by the Financial Reporting Council (the 'FRC') on their thematic reviews of:

- financial reporting disclosures in relation to cash flows and liquidity risk in interim reporting,
- alternative performance measures, and
- going concern and viability.

and considered how the matters raised had been addressed in the 2021 half year results statement and the 2021 financial statements.

In May 2021, the Company received a letter from the FRC detailing the findings of their review of the Group's 2020 financial statements. The FRC's review was based on the annual report and accounts and did not benefit from detailed knowledge of the business or an understanding of the underlying transactions entered into. It was, however, conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework. The Committee considered the matters raised by the FRC, which principally related to the disclosures in respect of the Group's legacy UK defined benefit pension scheme, the designation of key management personnel, and tax charges on non-underlying items. The outcome of the findings raised by the FRC did not have a significant impact on the Group's 2020 financial statements and no adjustment to the prior year disclosures were required. The Committee approved the response to the FRC, who subsequently confirmed that their review had been closed. The FRC's observations were reviewed again by the Committee as part of the preparation of the 2021 financial statements to ensure that disclosure improvement points raised by the FRC were actioned.

AUDIT COMMITTEE REPORT continued

SIGNIFICANT ISSUES 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 2021 and 31 October 2021, against the latest forecasts for the businesses concerned and the future strategic plan for the Group.

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 2021 and September 2021. It was concluded that no impairment charges were required in 2021.

ALTERNATIVE PERFORMANCE MEASURES

The Committee reviewed the use of alternative performance measures in the interim results statement 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.

CONTINGENT LIABILITIES

The Committee considered the appropriate accounting treatment of the Group's potential tax liability which might have arisen 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 continue to treat this as a contingent liability at the half year. HM Revenue & Customs confirmed that the Group had no liability in respect of this matter in October 2021.

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 COVID-19 on the Group, and the Group's long-term viability statement are set out in the strategic report on page 72.

Since the year end, the Committee has reviewed the form and content of the 2021 annual report and accounts and recommended to the Board that, taken as a whole, the annual report and accounts should be considered as fair, balanced and understandable. The Committee also concluded that the annual report and accounts provided 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?

PROPOSED AUDIT AND CORPORATE GOVERNANCE REFORMS

The Committee has reviewed the consultation on proposed audit and corporate governance reforms published by the Department for Business, Energy and Industrial Strategy in March 2021 and considered the potential implications for the Group. Developments with regards to the proposed reforms are being closely monitored by the Committee.

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 audit from key people involved in the audit process.

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

KPMG 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.

The audits of the Group's US businesses 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. KPMG's UK and US audit teams need to co-ordinate their work to ensure that the audit of the consolidated Group results at the year end can be completed efficiently in order to facilitate this, the annual audit plan provided for planning work for the 2021 year end audits of the US businesses to commence in the first half year of the financial year which enabled the Group audit to be completed within the usual six month timeframe following 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 2022 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 number 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 arrangements, 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 2021 included specific focus on:

- the key financial and operating controls within the business;
- IT and cyber security governance and controls;
- ERP system implementations;
- the Group's risk management systems and processes;
- compliance with the US International Traffic in Arms Regulations ("ITAR") in the Group's non-US businesses; and
- implementation of the Chemring Compliance Portal.

Restrictions on travel and visitor access to our sites as the result of COVID-19 continued to restrict PwC's ability to carry out on-site internal audits in person but PwC completed all planned reviews during the year remotely where necessary.

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 auditor, 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 2022. 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 2022 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
14 December 2021

NOMINATION COMMITTEE REPORT

Carl-Peter Forster

Chairman of the Nomination Committee

NOMINATION COMMITTEE MEMBERS

Carl-Peter Forster (Chairman)

Aurie Bowen

Andrew Davies

Stephen King

Fiona MacAulay

INTRODUCTION

I am pleased to present the Nomination Committee's report for the year ended 31 October 2021.

The main focus of the Committee during the year was on succession planning for the Board and the wider leadership team. The Committee also considered the reappointments of various members of the Board. Further details are set out below.

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 my 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, the Executive Committee and the wider leadership team

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.

Meetings of the Committee are attended, at the invitation of the Chairman, by the Group Chief Executive and the Chief People Officer 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 one meeting held during the year are shown on page 85.

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, further details of which are set out on page 86, 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.

APPOINTMENTS TO THE BOARD

The Committee is responsible for reviewing and recommending new appointments to the Board, and for considering the re-appointment of current directors.

Stephen King's first three-year appointment as a non-executive director expired in November 2021 and, after due consideration of his valuable contribution to the Board and the Audit Committee, the Committee recommended to the Board that Mr King be re-appointed for a second three-year term.

My second three-year appointment as Chairman and a non-executive director and Andrew Davies' second three-year appointment as a non-executive director will expire in April 2022 and May 2022 respectively. The Committee has concluded that we both continue to demonstrate commitment to our roles and make an effective contribution to the Board, and we have both accepted the Board's offer to take up further three-year appointments on expiry of our current terms.

With regards to the appointment of new non-executive directors to the Board, the Committee has an established process for identifying the attributes, skills and experience required of potential candidates. External recruitment consultants are engaged to undertake the search and provide an initial long list of potential candidates, which is reviewed by the Committee. Members of the Committee then meet with short-listed candidates, before selecting a small number of preferred candidates to meet with other members of the Board. A similar external search will also generally be undertaken for new executive directors, with any internal candidates being required to participate in this process.

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.

A new succession planning framework was adopted across the Group during the year. Utilising this framework, an assessment of the succession plans for individuals in key leadership roles at the Group level and within the businesses, including details of the internal talent pipeline, was developed and presented to the Committee for consideration. The need for more diversity within the talent pipeline was acknowledged by the Committee and this will be a key focus of our people strategy over the next few years.

The Committee is satisfied that appropriate succession plans are in place for the Board and key members of the Executive Committee covering emergency replacements. Longer-term appointments will be considered on a case-by-case basis, including internal candidates where available or external recruitment where deemed more appropriate.

Further details on our approach to succession planning are set out on page 52.

DIVERSITY, EQUITY AND INCLUSION

The Committee recognises the importance of diversity, equity 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, neurodiversity, sexual orientation, sexual and cultural background, and belief.

The Committee is cognisant of the voluntary targets set out in the Hampton-Alexander Review that at least 33% of Board and Executive Committee members, and their direct reports, should be female. We have met this target from a Board perspective 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.

Further details on our approach to diversity, equity and inclusion are set out on page 52.

The charts below will 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.

Carl-Peter Forster
Chairman of the Nomination Committee
14 December 2021

DIVERSITY

BOARD		EXECUTIVE COMMITTEE	
	3	2	
	5	7	
Male		Male	
Female		Female	
SENIOR MANAGERS		ALL EMPLOYEES	
	18	646	
	72	1,609	
Male		Male	
Female		Female	

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

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 85. 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.

INTRODUCTION

The directors' remuneration report for the year ended 31 October 2021 comprises:

- my annual report on the activities of the Remuneration Committee during the year;
- the updated directors' remuneration policy, which will be put to shareholders for approval at the Annual General Meeting on 3 March 2022;
- the annual report on remuneration, which explains how the current directors' remuneration policy was implemented in 2021;
- additional statutory information on remuneration arrangements; and
- an overview of how the new policy will be implemented in 2022.

THE REMUNERATION COMMITTEE'S ACTIVITIES DURING THE YEAR

During the year the Committee carried out its triennial review of the executive directors' remuneration policy. This review was undertaken in the context of the transformation of the Group successfully implemented by our Chief Executive, Michael Ord, since his appointment in 2018. The outputs of his leadership have included double digit organic revenue growth and a 370 basis point margin expansion over the period to 2021, in addition to delivering over £400m of shareholder value and enabling the Company to join the FTSE 250 index. The changes proposed to our remuneration policy and practice recognise the growth of Chemring since our last policy review in 2019, and ensure our remuneration policy is right-sized and strategically aligned as we look to deliver against our growth strategy.

As part of the review the Committee engaged with our major shareholders and the leading advisory agencies to explain and provide context for the proposed changes to policy and implementation for 2022. The feedback the Committee received was generally supportive of the proposed revisions and our implementation for 2022. However, to reflect the preference of some of our investors, and in particular the shareholder advisory bodies, we made a number of changes to our original proposals, including (i) phasing the proposed increase to the Group Chief Executive's salary; (ii) taking into account the increased annual bonus quantum when we set the range of earnings per share ("EPS") targets and (iii) replacing the personal objective targets with consistent structured strategic objective targets for our executive directors, which has resulted in a more demanding overall bonus structure. Details of the revisions to policy and implementation are summarised below and included in detail within the following directors' remuneration report.

As part of the policy review the Committee also considered the cascade of remuneration below Board and the structure of incentives taking into account the markets we operate in and the businesses we compete against. This review has resulted in increased flexibility in the types of long term incentives that can be granted below the Board level to ensure we are able to recruit and retain the best talent.

The new policy will be put to a shareholder vote at the 2022 Annual General Meeting and, if approved, will apply for a three year period.

In assessing remuneration outcomes this year the Committee continued to consider the ongoing impact of CV 19. Chemring has not been adversely impacted by CV 19 and as such did not receive any government support during the year.

There was continued strong performance during 2021 in both Sensors & Information and Countermeasures & Energetics, demonstrating the ongoing progress made in transforming Chemring into a higher quality technology-based business. Looking forward, whilst our modernisation and operational excellence programmes will continue, our focus is now shifting towards the growth of our Sensors & Information segment, where our market leading positions and investment in high technology niches position us well in this area of growing customer requirement – the acquisition of the Cubica group of companies demonstrating a small but important first step in driving further scale to grow the Radar business.

The table below summarises the Committee's key activities and decisions made during the year.

SUMMARY OF MAJOR ACTIVITIES AND DECISIONS OF THE COMMITTEE IN 2021

SALARY	- 2021 salary reviews for the executive directors and members of the senior leadership team
ANNUAL BONUS	- Consideration of the 2020 annual bonus plan outcome - Approval of the 2021 annual bonus plan financial targets aligned to strategic objectives for the executive directors - Approval of the 2021 annual bonus plan payments
PERFORMANCE SHARE PLAN ("PSP")	- Consideration of vesting outcomes for PSP awards made in 2018 and 2019 (in part as the TSR performance condition is yet to be finalised) - Approval of 2021 PSP awards and performance conditions
GOVERNANCE AND POLICY	- Development of new directors' remuneration policy and consultation with shareholders on the proposed policy

PERFORMANCE OUTCOMES

Performance against the 2021 annual bonus and PSP targets is explained in more detail on pages 111 to 114 but in summary:

- **Annual bonus.** The annual bonus for 2021 was subject to EPS, operating cash flow and strategic objective measures. As a result of the strong financial performance during 2021, 100% of the EPS metric and 100% of the operating cash flow metric will pay out. The Committee carefully assessed the performance of the executive directors against the individual personal objectives set at the beginning of the financial year and concluded that 90% of the objectives had been satisfied.

The total bonus payments for 2021 are therefore 98% of maximum for each of the executive directors.

- **PSP award for Group Chief Executive** (subject to performance over the three years ended 30 April 2021). Michael Ord was granted a one-off award on appointment which was subject to stretching EPS and total shareholder return ("TSR") performance conditions. Strong EPS performance over the period and TSR performance ranking Chemring between median and upper quartile of the peer group resulted in 86.4% of maximum vesting.
- **PSP awards** (subject in part to performance in the year ended 31 October 2021). The PSP awards granted to the executive directors on 27 March 2019 are subject 50% to EPS targets and 50% to relative TSR targets. Based on strong EPS growth over the three-year performance period and TSR performance to date, it is currently expected that these awards will vest in full but a final determination can only be made following the conclusion of the TSR performance period in March 2022.

The Committee is satisfied the remuneration policy has operated as intended in relation to performance and remuneration outcomes for 2021, and did not use any discretion. In concluding that the remuneration payments and policy have operated appropriately, the Committee considered the bonuses payable across the Group in the context of wider stakeholder views, individual businesses' performance and the realities between employees and executive directors in light of their roles and potential impact on the Group performance (this included considering pay ratios).

REMUNERATION POLICY REVIEW

During the year the Committee spent time reviewing the remuneration policy in the context of our current strategy and the transformation and growth of Chemring since the appointment of our Chief Executive in June 2018.

This transformation followed a rigorous strategic review in 2019 and included the implementation of a simplified organisational structure and business model, a reinvigoration of business processes, and a strengthening of the governance and management teams.

The outputs have been substantial, enabling double digit organic revenue growth and a 370 basis point margin expansion through the period from 2018 to 2021, resulting in a re-rating of our shares and the creation of shareholder value in excess of £400m since 2018). Furthermore, this growth resulted in Chemring's promotion to the FTSE 250 Index in March 2020. Chemring is now well set for future growth through our market leading positions in Sensors & Information and Countermeasures & Energetics. Our strength in these business sectors is built on world class technologies and teams, and a culture of innovation and operational excellence. With these fundamentals in place under the leadership of the current executive team, our strategy is to balance short-term performance with sustainable longer term value creation so that we can deliver on our core purpose.

The conclusion of the remuneration policy review was that the current structure, subject to modest refinements, remained appropriate in light of our current strategy. However in recognition of the growth in the size of the business driven from the successful business transformation implemented by our Chief Executive, we are proposing to adjust quantum so that remuneration is both "right sized" for the next phase of our growth, more balanced in terms of the weighting between short-term and long term performance incentives and is set at a level that will enable the retention and motivation of our talented executive team. We are also proposing an adjustment to the provision of pension benefits for executive directors to reflect current "best practice" expectations.

DIRECTORS' REMUNERATION REPORT continued

REMUNERATION OVERVIEW continued

REMUNERATION POLICY REVIEW continued

The key changes to policy that we are proposing to make are:

- (i) Reducing executive directors' pensions to align with the typical workforce rate from 1 November 2022. Incumbent executive directors' pensions are currently set at 20% of salary for the Group Finance Director and Group Legal Director & Company Secretary and 10% of salary for the Group Chief Executive, which is also the current policy for new appointments. In line with best practice, both incumbent executive directors' pension provision and the provision for any new appointments will reduce to the typical workforce rate from 1 November 2022. With work ongoing in relation to pension provision across the UK workforce, the applicable rate from 1 November 2022 is expected to be in the region of 7% to 8% of salary.
- (ii) Increasing the annual bonus opportunity so that it is fair more aligned with our long-term incentive quantum to support our strategy of balancing short-term performance with long-term value creation and (b) market competitive given the current size and complexity of Chemring. The maximum annual bonus opportunity will increase to 150% of salary from 125% of salary for the Group Chief Executive and from 100% of salary to 125% of salary for the Group Finance Director and Group Legal Director & Company Secretary, and
- (iii) Introducing ESG targets into our long-term incentive plan. The inclusion of ESG targets reflects Chemring's commitment to being a socially and environmentally responsible business.

As part of the review, the Committee also reviewed the policy against current best practice expectations and concluded that the current policy is fully aligned with corporate governance best practice and investor and proxy advisory guidance.

IMPLEMENTATION OF THE UPDATED POLICY FOR 2022

Base salaries were reviewed as part of the policy review and increases will be made effective from 1 January 2022.

In reviewing the Group Chief Executive's salary for 2022, the Committee took into full account the fact that he was appointed on a below-market base salary, in recognition that this was his first PLC Chief Executive role, and the exceptional performance and leadership that he has subsequently delivered, resulting in the business transformation noted above. In this context, the Committee considered it appropriate to increase his base salary to a rate that reflected his current calibre and experience. Having considered rates of pay in similarly sized and complex businesses, the Committee concluded that the appropriate salary level should be £550,000. However, having discussed the salary increase during consultation with institutional investors, whilst the majority of those consulted noted that the increase was well justified in our particular circumstances, it was suggested that the Committee should consider phasing the increase in recognition of the current executive pay environment and, in particular, the expectations of the leading shareholder advisory bodies. As a result of the investor feedback, the increase to salary will be phased such that the Group Chief Executive's salary will therefore be set at £520,000 with effect from 1 January 2022 and then increased to £550,000 with effect from 1 January 2023. The Committee will retain flexibility to adjust the £550,000 in line with a workforce-related cost of living increase.

From 2024, it is expected that any future increases for the Group Chief Executive will be limited to a workforce-related cost of living increase for the remainder of the policy period.

The Group Finance Director and the Group Legal Director & Company Secretary will both receive a cost of living related salary increase of 3% of salary effective 1 January 2022, which is in line with the rate awarded to the wider workforce for 2022. Across the workforce, rates of increase varied and whilst the overall salary increase budget was set at 3%, individual increases ranged from 0% to more than 10% where individuals were identified as being below the rate their performance in post, calibre and experience warranted.

Pension will be unchanged at 10% of salary for the Group Chief Executive and 20% of salary for the Group Finance Director and Group Legal Director & Company Secretary. As previously disclosed, pension provision for the executive directors will align to the workforce rate by 1 November 2022.

Subject to approval of the policy at the 2022 Annual General Meeting, the annual bonus opportunity for the Group Chief Executive will be 150% of salary and for the Group Finance Director and the Group Legal Director & Company Secretary 125% of salary. Performance will be based 40% on EPS, 40% on operating cash flow and 20% on strategic objectives. 40% of any bonus payable will be deferred in shares for three years. The increase to bonus opportunity, as noted above, recognises the growth in size and complexity of the business during the past three-year policy period and has been taken into account when setting the bonus targets for 2022.

The Committee intends to grant PSP awards over 150% of salary to all executive directors in 2022. As part of the policy review, the Committee reviewed the PSP performance metrics in the context of strategy and Chemring's commitment to being a socially and environmentally responsible business. The Committee is cognisant of the growing importance of ESG and, as such, proposes that 20% of the awards will be subject to defined, measurable ESG targets. The balance of the PSP awards will continue to be subject to challenging EPS growth targets (30%) and relative TSR targets measured versus the FTSE All-Share excluding investment trusts (30%). Full details of the long-term incentive plan targets are set out in the directors' remuneration report.

CONCLUSION

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

Laurie Bowen

Chairman of the Remuneration Committee

14 December 2021

DIRECTORS' REMUNERATION POLICY

This part of the directors' remuneration report sets out the remuneration policy for the executive directors and has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Companies (Miscellaneous Reporting) Regulations 2018 (the 'Regulations').

This directors' remuneration policy will be put to a binding shareholder vote at the Company's Annual General Meeting on 3 March 2022. If approved, the policy will apply for a three-year period from the date of the Annual General Meeting, unless shareholder approval is sought for earlier changes.

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.

DECISION MAKING PROCESS

The Committee periodically reviews the policy and its implementation to ensure it continues to allow us to incentivise and reward the executive directors to achieve our strategy in both the short and long term. The views of our shareholders and investor representative bodies are taken into account in determining the policy and implementation each year as well as the UK Corporate Governance Code and market practice. The Committee also has regard to the general pay levels and policies across the Group and takes these into account when setting executive director pay.

Operation of the policy is considered annually for the year ahead in light of the strategy and wider stakeholder experience, including the level of salary increase, the types of performance metrics, and the weightings and target ranges for incentives.

DIRECTORS' REMUNERATION REPORT continued

DIRECTORS' REMUNERATION POLICY continued

CONSIDERATION OF CODE PROVISIONS IN DETERMINING POLICY

When determining the directors' remuneration policy for the executive directors, the Remuneration Committee also addressed the following factors outlined in the 2019 UK Corporate Governance 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 strategic 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 or 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 strategic objectives which embrace the Company's values of Safety, Excellence and Innovation, and which are also aligned to the delivery of the Group's agreed strategy. The performance conditions under the PSP also incentivise long-term performance through the delivery of strategy and shareholder value.

SUMMARY OF PROPOSED CHANGES TO POLICY

The key changes to the directors' remuneration policy are set out below:

PENSION

- Pension for executive directors will be aligned with the workforce rate by 1 November 2022. Incumbent executive director pensions currently set at 20% of salary for the Group Finance Director and the Group Legal Director & Company Secretary and 10% of salary for the Group Chief Executive, which is also the current policy for new appointments. In line with best practice, the executive directors' pension provision will reduce to the typical workforce rate from 1 November 2022 and new executive directors will also be appointed on this rate.
- A review of pension provision in the UK is currently being undertaken, with the applicable employer contribution rate expected to be in the region of 7% to 8% of salary.

ANNUAL BONUS

- The maximum bonus opportunities for the executive directors are to be increased to 150% of salary from 125% of salary for the Group Chief Executive and to 125% of salary from 100% of salary for the Group Finance Director and the Group Legal Director & Company Secretary.

PERFORMANCE SHARE PLAN

- Reflecting Chemring's commitment to being a socially and environmentally responsible business, there will be flexibility under the policy to use ESG performance metrics.

DIRECTORS' REMUNERATION POLICY continued

REMUNERATION POLICY continued

Plan	Eligibility and criteria	Details	Duration	Performance measurement
Long-term incentive plan (performance share plan - "PSP")	- Eligible persons: employees who have been assigned to the strategic plan strategic objectives for the year - Eligible persons: employees who have been assigned to the strategic plan strategic objectives for the year	- Awards granted to employees who have achieved the targets set in the performance objectives for the year - Awards granted to employees who have achieved the targets set in the performance objectives for the year - Eligible persons: employees who have been assigned to the strategic plan strategic objectives for the year - Awards granted to employees who have achieved the targets set in the performance objectives for the year	- From July 1st to June 30th of the following year - From July 1st to June 30th of the following year	- Awards granted to employees who have achieved the targets set in the performance objectives for the year - Awards granted to employees who have achieved the targets set in the performance objectives for the year - Eligible persons: employees who have been assigned to the strategic plan strategic objectives for the year - Awards granted to employees who have achieved the targets set in the performance objectives for the year
All-employee share scheme	- Eligible persons: all employees who have been assigned to the strategic plan strategic objectives for the year - Eligible persons: all employees who have been assigned to the strategic plan strategic objectives for the year	- Awards granted to employees who have achieved the targets set in the performance objectives for the year - Awards granted to employees who have achieved the targets set in the performance objectives for the year - Eligible persons: all employees who have been assigned to the strategic plan strategic objectives for the year - Awards granted to employees who have achieved the targets set in the performance objectives for the year	- From July 1st to June 30th of the following year - From July 1st to June 30th of the following year	- Awards granted to employees who have achieved the targets set in the performance objectives for the year - Awards granted to employees who have achieved the targets set in the performance objectives for the year - Eligible persons: all employees who have been assigned to the strategic plan strategic objectives for the year - Awards granted to employees who have achieved the targets set in the performance objectives for the year
Pension	- Eligible persons: all employees who have been assigned to the strategic plan strategic objectives for the year - Eligible persons: all employees who have been assigned to the strategic plan strategic objectives for the year	- Awards granted to employees who have achieved the targets set in the performance objectives for the year - Awards granted to employees who have achieved the targets set in the performance objectives for the year - Eligible persons: all employees who have been assigned to the strategic plan strategic objectives for the year - Awards granted to employees who have achieved the targets set in the performance objectives for the year	- From July 1st to June 30th of the following year - From July 1st to June 30th of the following year	- Awards granted to employees who have achieved the targets set in the performance objectives for the year - Awards granted to employees who have achieved the targets set in the performance objectives for the year - Eligible persons: all employees who have been assigned to the strategic plan strategic objectives for the year - Awards granted to employees who have achieved the targets set in the performance objectives for the year

Feature	Purpose and intended strategy	Direction	Maximum	Performance indicators
Other benefits	• Provide a common purpose to all our stakeholders with relevant and relevant	• Main benefit: enhance the ability to deliver value to our shareholders • Secondary benefit: enhance the ability to deliver value to our stakeholders • Tertiary benefit: enhance the ability to deliver value to our stakeholders	• Total shareholder return (TSR) of 15.5% per annum • Return on capital employed (ROCE) of 15.5% per annum • Return on assets (ROA) of 15.5% per annum • Return on equity (ROE) of 15.5% per annum	• N/A
Minimum shareholding requirements	• A minimum of 10% of the shareholding to be held by the shareholders	• The Board will ensure that the shareholding requirements are met • The Board will ensure that the shareholding requirements are met • The Board will ensure that the shareholding requirements are met	• The Board will ensure that the shareholding requirements are met • The Board will ensure that the shareholding requirements are met • The Board will ensure that the shareholding requirements are met	

NOTES

1. A group of shareholders (the "Group") have agreed to provide the funding for the funding of the Group's shareholding requirements. The Group's shareholding requirements are set out in the Group's shareholding requirements.
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DIRECTORS' REMUNERATION REPORT continued

DIRECTORS' REMUNERATION POLICY continued

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 policy table above);
- 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 policy 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).

Ultimately, the payment of any bonus is entirely at the discretion of the Committee. Equally, the operation of share incentive schemes is at the discretion of the Committee. In conjunction with malus and clawback provisions, the Committee has the flexibility to override formulaic outcomes and recover and/or withhold sums. In choosing to use this discretion, the Committee will consider the specific circumstances at the time. Where such action is considered necessary, this will be clearly stated in the relevant directors' remuneration report.

SELECTION OF PERFORMANCE METRICS AND TARGETS

The performance-related elements of remuneration will take into account the Group's risk policies and systems, and will be designed to align the senior executives' interests with those of shareholders. The Committee reviews the metrics used and targets set for all of the Group's senior executives (not just the executive directors) every year in order to ensure that they are aligned with the Group's strategy and to ensure an appropriate level of consistency of arrangements amongst the senior executive team. All financial targets will (where appropriate) be set on a sliding scale. Non-financial targets are set based on individual and management team responsibilities.

The annual bonus plan performance metrics include a mix of financial targets and non-financial objectives, reflecting the key annual priorities of

the Group. The financial metrics determine the majority of the bonus and normally include operating cash flow – a key measure of the Group's ability to invest in the business, and a measure of profitability, which together reflect the Group's financial performance and are key measures for shareholders. The non-financial objectives agreed on an annual basis will be measurable and based on individual and/or team performance, and will be consistent with the achievement of the Group's strategy.

The Committee has previously applied EPS and TSR performance conditions to awards made under the PSP. EPS is a measure of the Group's overall financial success and TSR provides an external assessment of the Company's performance against a peer group. TSR also aligns the rewards received by executives with the returns received by shareholders. From 2022, the Committee will include an ESG-related performance measure to recognise Chemring's commitment to being a social and environmentally responsible business. Other performance measures, such as capital efficiency, are also considered important within the business and may be considered appropriate for inclusion in the PSP by the Committee.

The Committee will review the choice and relative balance of performance measures and the appropriateness of performance targets prior to each grant of awards under the PSP. Financial targets are reset prior to each grant, following a review of internal and external expectations of growth for the Group, and are based on underlying performance assessment. The Committee retains discretion to set different targets for future awards, providing that, in the opinion of the Committee, the new targets are not less challenging in light of the prevailing circumstances than those set previously. If substantially different targets to those used previously are proposed, major shareholders will be consulted.

HOW THE EXECUTIVE DIRECTORS' REMUNERATION POLICY RELATES TO THE WIDER GROUP

In addition to determining the remuneration arrangements for the executive directors, the Committee considers and approves the base salaries for nine other non-UK senior executives. 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.

During the year, the designated non-executive director for employee engagement held a number of remote meetings with employees from across the Group in which the Group's key priorities going forward and the business strategy were discussed. Topics discussed during these meetings also included remuneration with the designated non-executive director sharing with employees how the annual bonus links to business strategy and how performance is determined. Employees are encouraged to ask questions and share their views during these meetings. During 2022, the Committee will review its approach to employee engagement, with a focus on remuneration matters and explaining how executive pay policy and practices align to the pay practices for the workforce generally.

The remuneration policy described above provides an overview of the structure that operates for the most senior executives in the Group. Lower aggregate incentive quantum are applied at below executive level with levels driven by market comparatives and the impact of the role.

HOW THE EXECUTIVE DIRECTORS' REMUNERATION POLICY RELATES TO THE WIDER GROUP continued

Employees are provided with a competitive package of benefits, which typically includes participation in the Group's defined contribution pension arrangements.

Long-term incentives are provided to the most senior executives and those identified as having the greatest potential to influence performance within the Group. However, in order to encourage wider employee share ownership, the Company also operates a Sharesave Plan in the UK, in which all UK employees are eligible to participate on completion of six months' service.

HOW SHAREHOLDERS' VIEWS ARE TAKEN INTO ACCOUNT

The Remuneration Committee considers shareholder feedback received on the directors' remuneration report each year and guidance from shareholder representative bodies more generally. Shareholders' views are key inputs when shaping remuneration policy, with the Company's major shareholders being consulted in advance in connection with proposed changes to policy.

In relation to the formulation of this proposed pay policy, shareholders' views were sought at an early opportunity. Feedback was generally supportive of the changes being made. However, in recognition of feedback from certain shareholders, certain changes were made to the original proposals as detailed on page 96. More general comments on the policy structure and implementation were considered by the Remuneration Committee and will be kept under review.

LEGACY ARRANGEMENTS

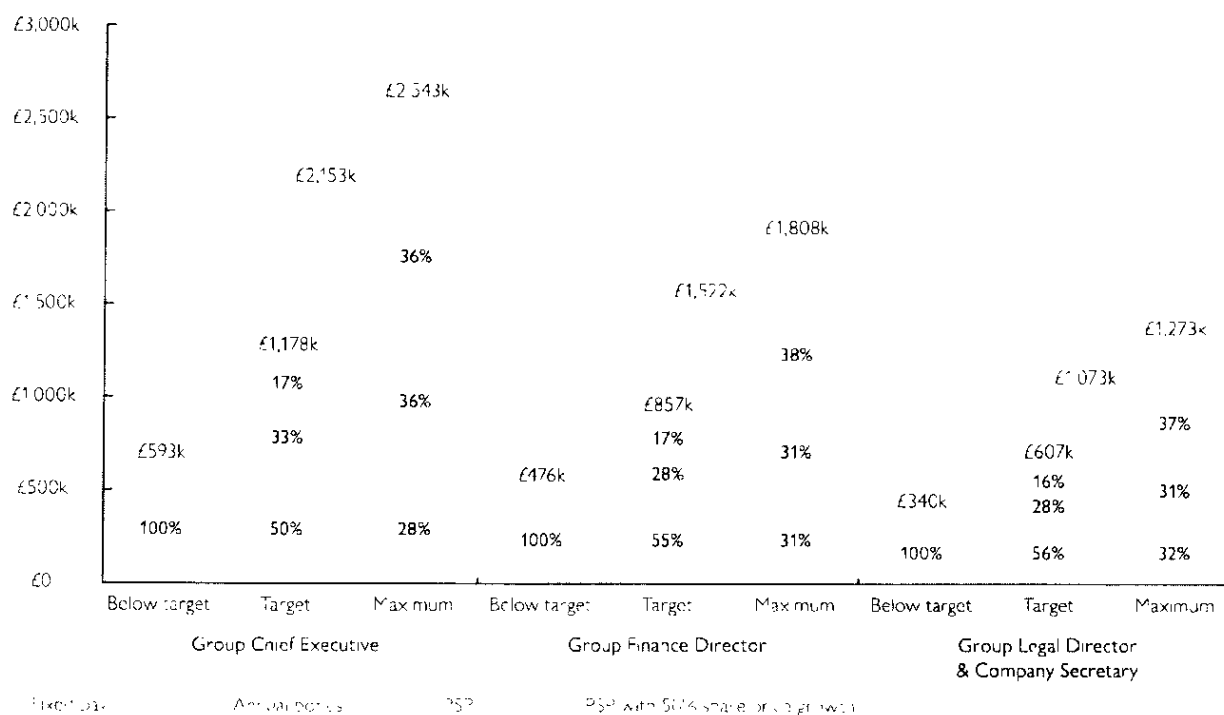
For the avoidance of doubt, authority is given to the Company to honour any commitments entered into with current or former directors (such as the payment of a pension or the unwinding of legacy share schemes) permitted under the current policy or which have been disclosed to shareholders in previous directors' remuneration reports. Details of any payments to former directors will be set out in the annual report on remuneration as they arise.

EXTERNAL APPOINTMENTS

The Company's policy is to permit an executive director to serve as a non-executive director elsewhere when this does not conflict with the individual's duties to the Company, and where an executive director takes such a role they may be entitled to retain any fees which they earn from that appointment. The executive directors do not currently have any external appointments for which they receive fees.

POTENTIAL REMUNERATION SCENARIOS FOR EXECUTIVE DIRECTORS

The chart below details the hypothetical composition of each executive director's remuneration package and how it could vary at different levels of performance under the policy set out above.



ASSUMPTIONS

1. The chart is based on the remuneration policy for 2022, which is based on the assumption of a 10% increase in the Merck Group's 2022 share price over the 2021 share price. The target share price is £12.50, which is based on the 2021 share price of £11.36. The chart is based on the assumption of a 10% increase in the Merck Group's 2022 share price over the 2021 share price. The target share price is £12.50, which is based on the 2021 share price of £11.36.
2. The chart is based on the assumption of a 10% increase in the Merck Group's 2022 share price over the 2021 share price. The target share price is £12.50, which is based on the 2021 share price of £11.36. The chart is based on the assumption of a 10% increase in the Merck Group's 2022 share price over the 2021 share price. The target share price is £12.50, which is based on the 2021 share price of £11.36.

DIRECTORS' REMUNERATION REPORT continued

DIRECTORS' REMUNERATION POLICY continued

POLICY ON PAYMENTS FOR LOSS OF OFFICE

All new executive directors appointed will have service contracts which are terminable on a maximum of twelve months' notice. Provisions permitting the Company to make any termination payments by instalments, and requiring directors to mitigate their loss in such circumstances, will be included in each contract. The Remuneration Committee will exercise discretion in determining whether termination payments should be paid by instalments taking account of the reason for the departure of the director and their prior performance. Other than in gross misconduct situations, the Company would expect to honour the contractual entitlements of terminated directors.

Other than in certain "good leaver" circumstances (including, but not limited to, redundancy, ill-health or retirement), no bonus would be payable under the annual bonus plan unless the individual remains employed and is not under notice at the payment date. Any bonus paid to a "good leaver" would be based on an assessment of the individual and the Company's performance over the period, and would normally be pro-rated for the proportion of the year worked.

Deferred bonus share awards will also normally lapse on cessation of employment, unless the executive director is deemed to be a "good leaver" by the Remuneration Committee, as referred to above, in which case they would vest in full on the normal vesting date.

With regards to long-term incentive awards, the PSP rules provide that other than in certain "good leaver" circumstances awards lapse on cessation of employment. Where an individual is a "good leaver" the Remuneration Committee's policy for PSP awards is normally to permit awards to remain outstanding until the end of the original performance period, when a pro-rata reduction will be made to take account of the proportion of the vesting period that lapsed prior to termination of employment, although the Committee has the discretion to partly or completely disapply pro-rating in exceptional circumstances. The Committee has discretion to deem an individual to be a "good leaver". In doing so, it will take account of the reason for their departure and the performance of the individual. Holding periods will normally continue to apply to awards post cessation of employment.

The Committee will have authority to pay any statutory entitlements and settle claims against the Company (e.g. for unfair dismissal, discrimination or whistleblowing) that arise on termination. The Committee may also authorise the provision of out-of-pocket services and settle legal fees where considered appropriate.

EXECUTIVE DIRECTORS' SERVICE AGREEMENTS AND LOSS OF OFFICE PAYMENTS

The current executive directors have rolling service contracts, details of which are summarised in the table below.

Provision	Details/terms
Contract dates	Michael O'Leary - 30 April 2018 (effective 1 June 2018) Andrew Goss - 12 December 2016 (effective 9 January 2017) Sarah Ward - 2 November 2011 (effective 7 October 2011)
Notice period	Twelve months from both the Company and from the executive
Termination payments	Contracts may be terminated without notice by the payment of a sum equal to the sum of salary due for the unexpired notice period plus the fair value of any contractual benefits (including pension). Payments may be made in instalments and in these circumstances there is a requirement to mitigate loss.

The Company's policy on service agreements reflects the approach described above (e.g. notice periods will normally be twelve months or less).

The executive directors' service contracts are available for inspection at the Company's registered office.

RECRUITMENT OF EXECUTIVE DIRECTORS

Salaries for new hires (including internal promotions) will be set to reflect their skills and experience, the Company's intended pay positioning and the market rate for the applicable role.

Where it is appropriate to offer a below-market salary initially, the Committee has the discretion to allow higher phased salary increases over a period of time for newly-appointed directors, even though this may involve increases in excess of the rate for the wider workforce and inflation.

Benefits will be provided in line with those offered to other executive directors, taking account of local market practice, with relocation expenses or arrangements provided if necessary. Tax equalisation may also be considered if an executive is adversely affected by taxation due to their employment with the Company. Legal fees and other costs incurred by the individual may also be paid by the Company.

The aggregate incentive opportunity offered to new recruits will normally be no higher than that set out in the remuneration policy table. Different performance measures and targets may be set initially for the annual bonus plan, taking into account the responsibilities of the individual and the point of the financial year at which they join. A PSP award may be granted shortly following appointment (assuming the Company is not in a closed period). Any incentive quantum offered above the limits set out in the existing incentive plans and policy will (save as set out below) be contingent on the Company receiving shareholder approval for an amendment to its approved policy at its next general meeting.

Current entitlements of a new joiner from their previous employer that are forfeited (e.g. benefits, bonus and share schemes) may be bought out on terms that take due account of the nature of the entitlements in terms of (for example) type of award, time horizon, fair value and performance conditions. The Group's existing incentive arrangements will be used to the extent possible, although awards may also be granted outside of these arrangements if necessary, and as permitted under the Listing Rules, reflecting the above parameters. Such awards will, in accordance with the Regulations, be subject to the limits of the remuneration policy for incentive pay.

In the case of an internal hire, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant (and may be adjusted as relevant to take into account the Board appointment).

POLICY IN RESPECT OF THE CHAIRMAN AND NON-EXECUTIVE DIRECTORS

Topic	Further information	Supplement	Executive	Non-executive
The Chairman's and non-executive directors' fees	takes account of recognised practice and set at a level that is sufficient to attract and retain high-calibre non-executives	- 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, the Senior Independent Director and the non-executive director responsible for employee engagement 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 January of each year. - Non-executive directors do not participate in any pension, bonus or share incentive plans. - Non-executive directors may be compensated for travel, accommodation or hospitality-related expenses in connection with their roles and any tax thereon. - In exceptional circumstances, additional fees may be paid where there is a substantial increase in the temporary time commitment required of non-executive directors.	- N/A	- N/A

CHAIRMAN'S AND NON-EXECUTIVE DIRECTORS' LETTERS OF APPOINTMENT

Non-executive directors do not receive compensation for loss of office but are appointed for a fixed term of three years, renewable for further three-year terms if both parties agree and subject to annual re-election by shareholders. The Chairman's appointment may be terminated on six months' notice by either party and the other non-executive directors' appointments may be terminated on three months' notice by either party. The non-executive directors' letters of appointment are available for inspection at the Company's registered office.

The following table provides details of the terms of appointment for the Chairman and the current non-executive directors.

Non-executive	Date of initial appointment	Date of latest re-election	Date of latest re-election
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 2021	30 November 2024
Fiona MacAulay	3 June 2020	3 June 2020	2 June 2023

DIRECTORS' REMUNERATION REPORT continued

DIRECTORS' REMUNERATION POLICY continued

APPLICATION OF THE REMUNERATION POLICY IN 2022

This part of the report sets out how the approved directors' remuneration policy will be implemented in 2022

EXECUTIVE DIRECTORS

Editorial	Implementation
Salary	- The executive directors' salaries were reviewed in November 2021, and the following salary increases were agreed effective 1 January 2022: - Michael Ord – £520,000 - Andrew Lewis – £380,358 - Sarah Eiland – £266,646 - 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 4.6% to recognise his strong leadership role in transforming the business
Benefits	- No changes are proposed to the structure of pension and benefits provision for 2022 - Pension provision for all executive directors will be aligned to the typical workforce rate on 1 November 2022
Bonus	- The maximum bonus opportunity, subject to approval of the new policy, will be 150% of salary for the Group Chief Executive and 125% of salary for the Group Finance Director and the Group Legal Director & Company Secretary - The financial performance measures and weightings for the annual bonus plan will be unchanged. Following a review of performance measures, the personal objectives will be replaced by structured strategic objectives: - Earnings per share 40% - Operating cash flow 40% - Strategic objectives 20% - Strategic 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 rate and frequency of process safety events - Sustainability, including deployment of the Group's carbon reduction plans and delivery of reductions in the Group's scope 1 and scope 2 emissions - Ongoing implementation of the Operational Framework and demonstration of progress in operational assurance improvement plans - Implementation of the Chemring Compliance Portal - Deployment 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" - Delivery of diversity equity and inclusion objectives - Commission new production facilities in Tennessee and develop enterprise plan for the wider site - Delivery of organic and inorganic growth strategies for Roxe and Roxe USA - Development of a chemical/biological detection growth strategy - Achieve down-selection on the chemical/biological detection Programs of Record - 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 strategic 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 strategic 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

APPLICATION OF THE REMUNERATION POLICY IN 2022 continued

EXECUTIVE DIRECTORS continued

Element	Implementation																														
Performance Share Plan ("PSP")	- Executive directors will be granted PSP awards over 100% of salary in 2022 - Performance conditions for 2022 have been reweighted to take into account the introduction of an ESG measure. The performance conditions (tested over a three-year performance period to 31 October 2024) and weightings are therefore 50% EPS, 30% relative TSR and 20% ESG targets. 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 2022 awards will be measured as follows: <table border="1"> <thead> <tr> <th>Total company EPS growth over the three-year performance period</th><th>% of PSH part that may vest</th></tr> </thead> <tbody> <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> </tbody> </table> - The TSR performance condition for the 2022 awards will be measured as follows: <table border="1"> <thead> <tr> <th>Rank of the company's TSR against the TSR of the FTSE 100 (excluding investment trusts)</th><th>% of PSH part that may vest</th></tr> </thead> <tbody> <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> </tbody> </table> - The ESG performance condition for the 2022 awards will be measured as follows: <table border="1"> <thead> <tr> <th>Relative change in Scope 1 and Scope 2 emissions over the three-year performance period</th><th>% of ESG part that may vest</th></tr> </thead> <tbody> <tr> <td>Less than 15%</td><td>0%</td></tr> <tr> <td>15%</td><td>25%</td></tr> <tr> <td>Between 15% and 25%</td><td>On a straight-line basis between 25% and 100%</td></tr> <tr> <td>25% or more</td><td>100%</td></tr> </tbody> </table>	Total company EPS growth over the three-year performance period	% of PSH 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%	Rank of the company's TSR against the TSR of the FTSE 100 (excluding investment trusts)	% of PSH 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%	Relative change in Scope 1 and Scope 2 emissions over the three-year performance period	% of ESG part that may vest	Less than 15%	0%	15%	25%	Between 15% and 25%	On a straight-line basis between 25% and 100%	25% or more	100%
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NOTES

- The EPS target change is considered stretching when viewed against historical forecasts and a premium reflects the increasing macroeconomic factors.
 - The relative change in Scope 1 and Scope 2 emissions target is aligned with our strategy of reducing carbon intensity by 2030 and takes into account both a long-term guideline to reaching this goal.
- The choice of EPS, TSR and emissions reduction targets aligns with Chemring's long-term strategic objectives of delivering profitable growth and shareholder returns on a sustainable basis.

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.

The Chairman's fee and the non-executive directors' base fee will be increased by 3% effective 1 January 2022, which is in line with the budgeted increase to be awarded to the workforce in 2022.

Details of the fees that will apply for 2022 are set out below:

	£ per year 1 January 2022	Percentage increase
Chairman's fee	£206,000	3%
Other non-executive directors' base fee	£56,600	3%
Anti-Corruption Chair fee	£10,000	0%
Remuneration Committee Chair fee	£10,000	0%
Senior Independent Director fee	£10,000	0%
Non-executive directors' fee for employee engagement	£5,000	0%

DIRECTORS' REMUNERATION REPORT continued

2021 REMUNERATION AT A GLANCE

2021 REMUNERATION YEAR IN SUMMARY

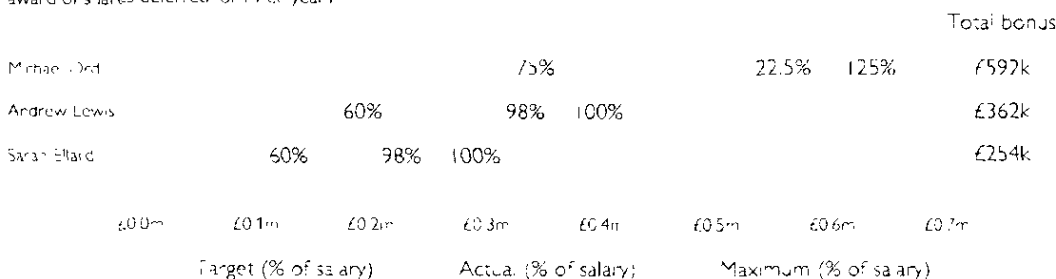
SALARY	Salary increases effective 1 January 2021 were as follows: - Michael Ord - 9.6% increase to £183,000 - Andrew Lewis - 5% increase to £369,280 - Sarah Ellard - 3% increase to £258,880
ANNUAL BONUS	Bonuses payable for 2021 performance as follows: - Michael Ord - 122.5% of salary (£591,675) - Andrew Lewis - 98% of salary (£361,894) - Sarah Ellard - 98% of salary (£253,702)
PERFORMANCE SHARE PLAN	AWARDS GRANTED Awards made in December 2020, 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 June 2018 to Michael Ord, which were subject to performance conditions measured over the three years ended 30 April 2021, vested at 86.4% of award value on 15 July 2021. Awards made in March 2019 to all three executive directors, which are subject to performance conditions measured over the three years ended 31 October 2021 for the EPS condition and over the three years ended 21 March 2022 for the TSR condition, are currently estimated to vest at 100% of award value. Actual vesting will be determined on 22 March 2022 and will be disclosed in next year's annual report.
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

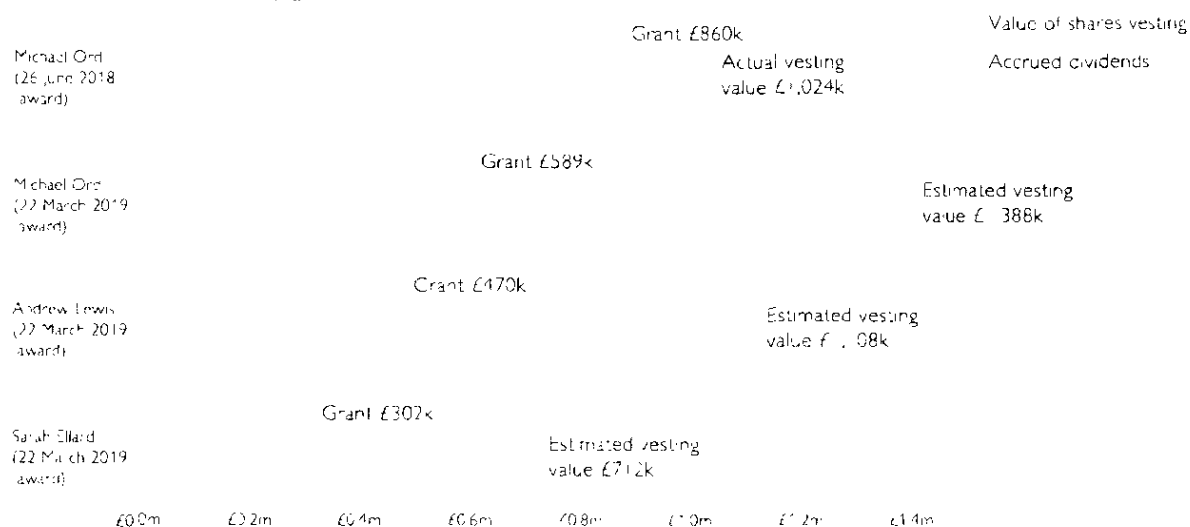
This chart illustrates the total remuneration received by the executive directors in 2021.

**ANNUAL BONUS PLAN OUTCOME**

This chart illustrates the bonuses payable for performance in 2021. 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 award granted to Michael Ord on 26 June 2018, which vested on 15 July 2021, and the estimated value of the awards made to all three executive directors on 22 March 2019 that will vest on 22 March 2022 based on 100% vesting of awards. The grant value in each case is based on the share price on the grant date and the vesting value is calculated on the same basis as in the directors' remuneration table on page 110.



DIRECTORS' REMUNERATION REPORT continued

ANNUAL REPORT ON REMUNERATION

This part of the report explains how the directors' remuneration policy was implemented in 2021. 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 for 2020	Executive benefits for 2020	Pension contributions for 2020	Total fixed pay for 2020	Dividends and deferred shares for 2020	RRP for 2020	Total variable pay for 2020	Total for 2020
Executives									
Michael Ord	2021	476	21	48	545	592	2,412	3,004	3,549
	2020	440	21	44	505	540	—	540	1,045
Andrew Lewis	2021	366	20	73	459	362	1,108	1,470	1,929
	2020	350	20	70	440	345	859	1,204	1,644
Sarah Ellard	2021	258	20	51	329	254	712	966	1,295
	2020	225	20	45	290	222	553	775	1,065
Non-executives									
Carl-Peter Forster	2021	200	—	—	200	—	—	—	200
	2020	200	—	—	200	—	—	—	200
Lynne Rowan ¹	2021	69	—	—	69	—	—	—	69
	2020	62	—	—	62	—	—	—	62
Andrew Davies ²	2021	63	—	—	63	—	—	—	63
	2020	58	—	—	58	—	—	—	58
Stephen King	2021	65	—	—	65	—	—	—	65
	2020	65	—	—	65	—	—	—	65
John MacAulay	2021	55	—	—	55	—	—	—	55
	2020	23	—	—	23	—	—	—	23
Total remuneration	2021	1,552	61	172	1,785	1,208	4,232	5,440	7,225
	2020	1,423	61	159	1,643	1,107	1,412	2,519	4,162

NOTES

1. Compensation in the form of a share award of £20,000 for Michael Ord and £19,350 for each of Andrew Lewis and Sarah Ellard was awarded to each of the executive directors. The value of this award has been included based on the share price in the closing of 289.30. The RSP award, granted in March 2019, was equal to 50% of EPS performance measured over the three years ended 31 October 2021 and 40% of EPS performance measured over the three years from the first of grant. These awards have been included for 2021 based on the estimate of the closing value with no payable for vesting for the EPS part of the award. The 100% of maximum incentive based vesting of 100% of maximum for the 50% part of the award. The value of the award will also be included in next years report based on the vesting price TSP performance as such determined in March 2022. The estimated value for the award for the three years period ended 31 October 2021 equated to 3.36 pence share. The value of the award has been included in the 2021 emoluments.
2. Lynne Rowan was appointed as a non-executive director on 1 August 2019 and was appointed as Chairman of the Remuneration Committee on 4 March 2021. She was also received an additional fee of £10,000 per annum with effect from that date included in the 2020 figures on a non-executive basis. Mrs Rowan also received an additional fee of £10,000 per annum with effect from 1 January 2021 in respect of her appointment to the non-executive director responsibilities as a non-executive director.
3. Andrew Davies received an additional fee of £10,000 per annum included in the 2020 remuneration on a non-executive basis in respect of his appointment to the Remuneration Committee on 4 March 2020. Mr Davies also received an additional fee of £11,000 per annum for his appointment as senior independent director with effect from 1 January 2021.
4. John MacAulay was appointed as a non-executive director on 3 June 2020.

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

BASE SALARY AND BENEFITS PAID DURING THE YEAR (AUDITED)

Salaries for the executive directors were reviewed in November 2020 and increases were approved by the Remuneration Committee effective 1 January 2021.

The salaries of the executive directors during the year were therefore as follows:

Executive	Annual salary from 1 January 2020 to 31 October 2020	Annual salary from 1 January 2021 to 31 October 21
Michael Ord	£440,750	£483,000
Andrew Lewis	£351,696	£369,280
Sarah Ellard	£226,206 ¹	£258,880

NOTES

1. Sarah Ellard was appointed to the full time role of Chief Financial Officer on 1 November 2020.

BASE SALARY AND BENEFITS PAID DURING THE YEAR (AUDITED) (continued)

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.

DETAILS OF VARIABLE PAY OPPORTUNITY IN THE YEAR
ANNUAL BONUS (AUDITED)

80% of the annual bonus opportunity for 2021 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 2021 bonus plan, compared with actual performance, were as follows:

	Weighting (80% of overall bonus)	Performance	Target	Actual
Underlying diluted earnings per share (continuing operations)	50%	Threshold Target Stretch	14.25 14.95 15.65	16.50
Underlying operating cash flow (continuing operations)	50%	Threshold Target Stretch	£71.5m £75.3m £79.1m	£80.0m

The personal objectives set in respect of the 2021 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 and associated assurance processes - Minimising the Group's total recordable injury frequency rate - Reducing the number of process safety events	- HSE Management Systems Framework further strengthened by the introduction of a Group-wide asset integrity standard and assurance process strengthened utilising the ecoOnline platform - Total recordable injury frequency rate reduced to 0.67 (2020: 0.85) - Process safety event rate (Level 3 & 2) 1.1/3 against a target of 2.5 - Group Technical Safety Committee established - Group Health, Safety and Wellbeing Committee established
STRATEGY AND CORPORATE DEVELOPMENT - Strengthen the Group's strategy and corporate development capability - Commission new production facilities in Tennessee - Secure down-selection on the AVCAD Program of Record - Develop M&A roadmap for Roxe - Establish Roxe US business development capability - Deliver chemical/biological detection growth plan	- New Group Director of Strategy & Corporate Development appointed - Roxe M&A processes established and acquisition of the Cubica group of companies completed - Growth plans developed to address chemical/biological detection and electronic warfare opportunities - Roxe USA business unit established - Commissioning of new countermeasures production facility in Tennessee completed (October 2021) - AVCAD progressing through the EMD phase as expected with down-selection decision on the CRIP contract anticipated in 2022
OPERATIONS - Strengthen the Group's continuous improvement plans across all businesses - Deploy the Information Technology Roadmap and implement enhanced cyber security arrangements	- Good progress made across the Group in deployment of continuous improvement frameworks and underlying operating margin increased to 14.6% (2020: 13.6%) - Numerous new information systems deployed across the Group including new ERP systems in two US businesses and new Microsoft M365 systems at the UK and US head offices - Action plan implemented to deliver compliance with the US Government's "CMMC" Level 3 standards
FINANCING - Refinance bank facilities - Manage the EU State Aid contingent liability - Reduce liabilities associated with the legacy UK defined benefit pension scheme	- Revolving credit facility refinanced in July 2021 with an increased facility limit of £150m running through to December 2024 and with three one-year options to extend - Year end net debt reduced to £26.6m (2020: £46.7m) - HMRC confirmed their investigation into the Group's potential exposure in relation to the EU State Aid claim had concluded in October 2021, with the Group having no liability - Triennial actuarial valuation of the defined benefit pension scheme showed technical provisions funding level of 105% as at April 2021

DIRECTORS' REMUNERATION REPORT continued

ANNUAL REPORT ON REMUNERATION continued

DETAILS OF VARIABLE PAY OPPORTUNITY IN THE YEAR continued

ANNUAL BONUS (AUDITED) continued

Strategic objective	Key achievements
PEOPLE	
- Implementation of enhanced processes for talent development and succession planning	- Talent framework and succession planning process implemented across the Group with key leadership subject matter experts and functional roles identified, succession plans for the executive and senior leadership teams reviewed with the Nomination Committee
- Deliver improvements in business leadership and line management capabilities	- Leading Our People training programme deployed Group-wide with over 340 participants
- Ensuring all employees have a voice in the business to strengthen our values-based culture	- Performance conversations framework deployed to each business
	- Employee Voice adoption rates improved and culture check-in review completed

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

Andrew Lewis	Key achievements
- Refinance bank facilities	- Refinance achieved in July 2021 at a higher level of ERM ¹ introducing two new banks, demonstrating the importance of ongoing relationships and, despite harder credit markets post COVID-19, at improved pricing terms
- Implement enhanced investor relations programme	- Investor relation programme maintained through 2021, resulting in a further broadening of the investor base in 2021
- Oversight of the IT modernisation programme	- Successful oversight of IT modernisation completed with new system live in the UK head office
- Implement enhanced cyber security arrangements	- Strong financial team successfully strengthened during year with two new international finance directors in role
- Continued development of the central finance team	- State Aid contingency liability successfully managed with expenditures exceeded
- Manage the EU State Aid contingent liability	

Sarah Ellard	Key achievements
- Implement an updated operational assurance process, including internal audit standards	- Operational assurance process updated and reissued in June 2021, with more robust assurance requirements for demonstrating compliance with key HSE, finance and legal/regulatory policies
- Development of additional training programmes to support the Operational Framework	- Updated Code of Conduct and training programme issued
- Implement further enhancements to the Group's anti-bribery policies and procedures	- New policy and risk management arrangements introduced to address sales to customers situated in higher risk territories
- Implement the third party due diligence module of the Chemring Compliance Portal	- Chemring Compliance Portal deployed, policies training and gifts & hospitality modules fully operational across the Group, third party due diligence module operational for sales partners, and good progress made on transition of service providers and suppliers to the new system
- Develop proposals for liability management exercises for the legacy UK defined benefit pension scheme and progress the GMP equalisation project	- Feasibility work completed on the potential buy-in of pension scheme liabilities
- Assist with development of cyber incident crisis response plan	- Chemring Security Committee established and initial phase of cyber incident crisis response plan successfully implemented

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. During 2021, the Committee concluded that all but a small number of objectives had been achieved in full and so the strategic and personal targets were met at 90% of the maximum.

Based on the above performance, bonuses are payable to the executive directors under the 2021 bonus plan as follows (audited):

NAME	Maximum bonus (% of salary)	Performance score (% of target)	Final bonus (% of salary)	Final bonus (£ per annum)
Michael Ord	125%	100%	22.5%	£591,675
Andrew Lewis	100%	80%	18%	£361,894
Sarah Ellard	100%	80%	18%	£253,102

NOTE:

¹ 40% of bonus is payable by way of share award deferred share awarding to which is subject to 3-year continued service.

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

DEFERRED BONUS SHARES GRANTED DURING THE YEAR IN RESPECT OF THE 2020 BONUS

Details of the deferred bonus share awards granted on 15 December 2020 in relation to the bonus for the year ended 31 October 2020 are set out in the table below. The awards will vest subject to continued employment in three years.

Executive	Granting date	Number awarded	Value awarded (pence)
Michael Ord	15 December 2020	71,989	£215,967 ¹
Andrew Lewis	15 December 2020	45,954	£137,862
Sarah Ellard	15 December 2020	29,557	£88,671

¹ Value based on the closing share price of 300p on the date of grant.

PERFORMANCE SHARE PLAN (AUDITED)

Vesting of June 2018 PSP awards

The PSP awards granted to Michael Ord on 26 June 2018 were made subject to the following performance conditions:

Metric	Threshold vesting	Full vesting
Total compound EPS growth per annum over the three-year period from 1 May 2018 to 30 April 2021 (50% of award)	5% p.a. (25% vests)	10% p.a. (100% vests)
Rank of the Company's TSR against the TSR 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)

The Group's compound EPS growth on continuing operations over the three-year period ended 30 April 2021 was 55% p.a. and 100% of the part of the award subject to the earnings per share measure therefore vested. 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 measured on a like-for-like basis.

The Company's TSR over the performance period ranked 3.7 against a median of 4.5 for the comparator group and therefore 72.8% of the part of the award subject to the TSR measure vested.

86.4% of the total award granted to Mr Ord on 26 June 2018 vested on 15 July 2021.

Details of the award granted to Mr Ord on 26 June 2018 and the amount that vested are provided below (audited).

Executive	Vesting date	Number awarded	Number vested	Value of shares vested
Michael Ord	15 July 2021	394,495	340,843	53,652

Executive	Value of award granted	Value of award vested	Value of award forfeited
Michael Ord	£986,740	£36,811	£1,023,551

NOTE:

¹ Value based on the closing share price of 289 p.p. on 15 July 2021.

Vesting of March 2019 PSP awards

The PSP awards granted to all three executive directors on 22 March 2019 were made subject to the following performance conditions:

Metric	Threshold vesting	Full vesting
Total compound EPS growth per annum over the three financial years ended 31 October 2021 (50% of award)	5% p.a. (25% vests)	10% p.a. (100% vests)
Rank of the Company's TSR against the TSR 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)

The Committee set an adjusted base line EPS of 11.3p for the year ended 31 October 2018 for the purpose of measuring the EPS performance condition in view of the fact that the reported EPS for that year was lower than expected as a result of an incident at the UK countermeasures business. The Group's compound EPS growth on continuing operations over the three financial years ended 31 October 2021 was 13.5% p.a. and 100% of the part of the award subject to the EPS measure will therefore vest.

The Company's TSR over the performance period cannot be ascertained until March 2022. Based on current performance to date, the TSR performance measure is expected to vest at 100% of maximum. Total estimated vesting for the awards is therefore 100% of maximum. The actual TSR performance and vesting level will be provided in the 2022 directors' remuneration report.

DIRECTORS' REMUNERATION REPORT continued

ANNUAL REPORT ON REMUNERATION continued

DETAILS OF VARIABLE PAY OPPORTUNITY IN THE YEAR continued

PERFORMANCE SHARE PLAN (AUDITED) continued

Vesting of March 2019 PSP awards continued

Details of the awards granted to the executive directors on 22 March 2019 are provided below (audited)

Executive	Award date	Number of shares granted	Number of shares vested	Number of shares awarded
Michael Ord	22 March 2022	421,568	421,568	-
Andrew Lewis	22 March 2022	336,391	336,391	-
Sarah Ellard	22 March 2022	216,361	216,361	-

Executive	Value of shares granted (estimated)	Value of shares vested (estimated)	Value of shares awarded (estimated)
Michael Ord	£1,340,586	£47,637	£1,388,223
Andrew Lewis	£1,069,723	£38,012	£1,107,735
Sarah Ellard	£688,028	£24,449	£712,477

NOTE

The value of shares granted on the PSP awards are based on the closing price of the Company's ordinary shares on 22 March 2022 and the value of shares vested is based on the closing price of the Company's ordinary shares on 22 March 2022.

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	Share value	Performance condition	Weighting
Michael Ord	16 December 2020	150% of salary	300p	220,375	£661,125	25%	50% EPS growth and 50% relative TSR performance
Andrew Lewis	16 December 2020	150% of salary	300p	175,848	£527,544	25%	50% EPS growth and 50% relative TSR performance
Sarah Ellard	16 December 2020	100% of salary	300p	125,670	£377,010	25%	50% EPS growth and 50% relative TSR performance

The performance conditions applying to the awards made in December 2020 are based as to one half of each award on the Company's compound EPS growth over three financial years commencing 1 November 2020 and as to the other half on each award on the Company's TSR performance over the same three year period.

The EPS performance condition will be measured as follows:

EPS growth	Weighting
Loss 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

The EPS growth condition will be measured as follows:

The TSR performance condition will be measured as follows:

Rank of TSR performance	Weighting
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 2020 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 director	Years of service at 31 October 2021	Transfer value of accrued benefit at 31 October 2021		Total benefit accrued at 31 October 2021		Transfer value of accrued benefit at 31 October 2021	Increase in transfer value during year (less members' contributions)	Value of benefit for single figure
		Pension £'000 p.a.	Cash £'000	Pension £'000 p.a.	Cash £'000	£'000	£'000	
Michael Ord	48	—	—	—	—	—	—	48
Andrew Lewis	73	—	—	—	—	—	—	73
Sarah Ellard	51	24	72	24	72	461	—	51

NOTES:

1. Michael Ord received a 10% cash supplement in lieu of pension and the other executive directors receive a 20% cash supplement.
2. The transfer values represent benefits in the applicable scheme available to the individual.
3. The transfer values have been calculated in accordance with the Occupational Pension Scheme (Transfer Values) Regulations 1996.
4. Sarah Ellard left pensionable service on 16 April 2010 and therefore has not accrued additional pension over the year. The accrued benefits shown are the benefits at the date of exit.
5. The scheme provided a lump sum of 1.80% of pensionable salary plus a cash lump sum of 3/80ths for each year of membership. The pensionable salary was capped at the HMRC maximum lump sum and the scheme assumed a normal retirement age of 65. Early retirement premiums for normal age 55 but reduced benefits are reduced accordingly using the early retirement factors in force at the date of early retirement.

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 65,981 shares granted to Mr Flowers in part satisfaction of his annual bonus for the year ended 31 October 2017 vested in full on 18 January 2021. Mr Flowers received £6,730 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 nine 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 up-to-date 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 Social 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 80 employees 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.

As part of the policy review, the Committee also considered the cascade of remuneration below Board and the structure of incentives taking into account the markets we operate in and the businesses we compete against. Prior to the policy review, Chemring operated the PSP below Board, typically covering around 10 employees, who were 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. Having reviewed the long-term incentive structures below Board, the Committee concluded that the sole use of a PSP limits our ability to recruit and retain the best talent versus those offered within our peer set. Accordingly, for 2022 the ability to grant restricted stock to employees below Board level will be introduced to address this competitive disadvantage.

All UK employees are encouraged to participate in the UK Sharesave Plan. At present over 200 employees participate in the UK Sharesave Plan.

DIRECTORS' REMUNERATION REPORT continued

ADDITIONAL STATUTORY INFORMATION ON REMUNERATION ARRANGEMENTS

DIRECTORS' SHAREHOLDINGS (AUDITED)

Shareholding guidelines apply to executive directors during employment and post cessation of employment as set out in the directors' remuneration policy on page 101.

The interests of the directors in the ordinary shares of the Company at 31 October 2021 are shown below. All are beneficial holdings.

Executive	Ordinary shares	Percentage of ordinary shares	Voting rights	Number of shares held in the ordinary shares of the Company					Total number of shares held	Percentage of ordinary shares
				At 31 October 2020	Dec 2019 awards	At 31 October 2021	At 31 October 2021	At 31 October 2021		
Michael Ord	225,559	13.7%	Yes	421,568	307,142	220,375	949,085	172,327	16,833	
Andrew Lewis	249,272	19.7%	Yes	336,391	245,085	175,848	757,324	110,002	8,910	
Sarah Ellard	161,975	18.3%	Yes	216,361	157,635	125,670	499,666	70,752	8,910	
Carl-Peter Forster	30,000									
Laurie Bowen	15,000									
Andrew Davies										
Stephen King	35,000									
Fiona MacAulay										

NOTE

* Based on the number of shares legally owned (excluding base salary) of 1,632,561 at 31 October 2021.

The directors' share interests at 31 October 2021 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 2021.

OUTSTANDING PSP AWARDS (AUDITED)

Executive	At 1 November 2020	Awards granted during the year	Number of shares awarded		At 31 October 2021	Date of vesting	Number of shares vested
			Applied during the year	Unapplied during the year			
Michael Ord	394,495	-	(53,652)	(340,843)	-	15 July 2021	2180
	421,568	-	-	-	421,568	22 March 2022	1396
	307,142	-	-	-	307,142	17 December 2022	2255
	-	220,375	-	-	220,375	16 December 2023	3000
	1,123,205	220,375	(53,652)	(340,843)	949,085		
Andrew Lewis	265,791	-	-	(265,791)	-	19 January 2021	1908
	336,391	-	-	-	336,391	22 March 2022	1396
	245,085	-	-	-	245,085	17 December 2022	2255
	-	175,848	-	-	175,848	16 December 2023	3000
	847,267	175,848	-	(265,791)	757,324		
Sarah Ellard	170,952	-	-	(170,952)	-	19 January 2021	1908
	216,361	-	-	-	216,361	22 March 2022	1396
	157,635	-	-	-	157,635	17 December 2022	2255
	-	125,670	-	-	125,670	16 December 2023	3000
	544,948	125,670	-	(170,952)	499,666		

NOTE

1. As explained above, the awards are currently expected to vest on 22 March 2022.

OUTSTANDING PSP AWARDS (AUDITED) continued
PERFORMANCE CONDITIONS FOR OUTSTANDING PSP AWARDS

	Measure	Director	Executive director award values	Threshold vesting	Target vesting
Awards made on 22 March 2019	Total compound EPS growth per annum over the three financial years ended 31 October 2021 (50% of award)	Michael Ord	140% of salary	5% p.a. (25% vests)	10% p.a. (100% vests)
	Rank of the Company's TSR of the members of the comparator group over the three-year period from 22 March 2019 to 21 March 2022 (50% of award)	Andrew Lewis Sarah Ellard		Median ranking (25% vests)	Upper quartile ranking (100% vests)
Awards made on 17 December 2019	Total compound EPS growth per annum over the three financial years ended 31 October 2022 (50% of award)	Michael Ord	150% of salary	5% p.a. (25% vests)	10% p.a. (100% vests)
	Rank of the Company's TSR against the TSR of the FTSE All Share (excluding investment trusts) over the three financial years ended 31 October 2022 (50% of award)	Andrew Lewis Sarah Ellard		Median ranking (25% vests)	Upper quartile ranking (100% vests)
Awards made on 16 December 2020	Total compound EPS growth per annum over the three financial years ended 31 October 2023 (50% of award)	Michael Ord	150% of salary	5% p.a. (25% vests)	10% p.a. (100% vests)
	Rank of the Company's TSR against the TSR of the FTSE All Share (excluding investment trusts) over the three financial years ended 31 October 2023 (50% of award)	Andrew Lewis Sarah Ellard		Median ranking (25% vests)	Upper quartile ranking (100% vests)

NOTE

1. The awards made for the year ended 31 October 2018 were based on a combination of a performance condition at the UK level and performance condition at the global level. It is noted that the global performance condition which EPS growth would be measured against was not met. Accordingly, the UK performance condition needed to be achieved for the awards to vest. In 2018, the UK performance condition was not met and the awards were not eligible to vest.

OUTSTANDING DEFERRED BONUS SHARE AWARDS (AUDITED)

Executive	Number of shares of the award				Date of vesting	Vesting amount
	As at 1 November 2020	Awarded during the year	Lapsed during the year	Terminated during the year		
Michael Ord	100,333				16 December 2022	2100
		71,989			15 December 2023	3000
	100,333	71,989	—	—		172,322
Andrew Lewis	41,143			(41,143)	18 January 2021	1880
	64,048				16 December 2022	2100
		45,954			15 December 2023	3000
	105,191	45,954	—	(41,143)		110,002
Sarah Ellard	25,795			(25,795)	18 January 2021	1880
	41,195				16 December 2022	2100
		29,557			15 December 2023	3000
	66,990	29,557	—	(25,795)		70,752

DIRECTORS' REMUNERATION REPORT continued

ADDITIONAL STATUTORY INFORMATION ON REMUNERATION ARRANGEMENTS continued

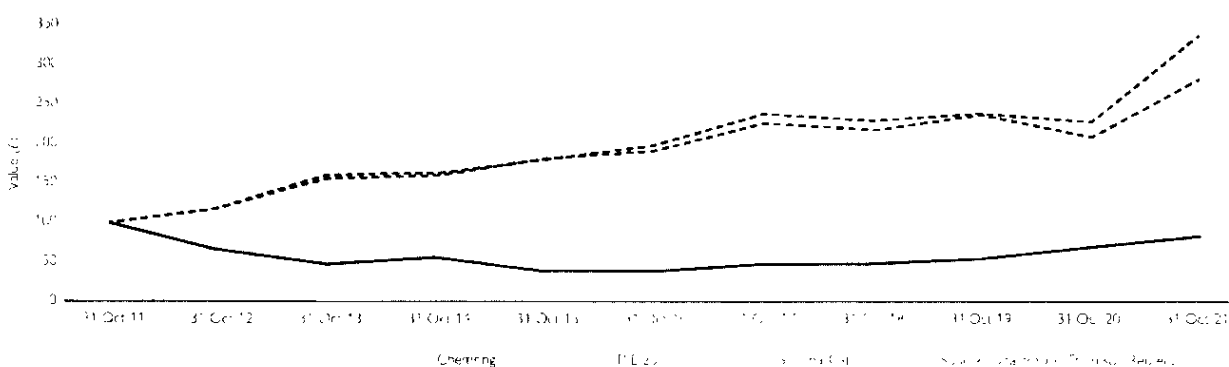
OUTSTANDING SHARE AVE OPTIONS (AUDITED)

Executive	Number of shares available				Exercise date
	At 1 November 2020	Granted during the year	Expired during the year	Exercised during the year	
Michael Ord	16,853	—	—	—	1 October 2023 31 March 2024
	16,853	—	—	—	
Andrew Lewis	8,910	—	—	—	1 October 2023 31 March 2024
	8,910	—	—	—	
Sarah Ellard	8,910	—	—	—	1 October 2023 31 March 2024
	8,910	—	—	—	

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 2021, of £100 invested in Chemring Group PLC on 31 October 2011 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 four years 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 Flowers	Michael Flowers	Michael Flowers	Michael Ord	
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total remuneration (£'000)	1,325	785	841	507	855	831	969	1,021	1,045	3,549
Annual bonus (% of maximum)	0%	40%	50%	0%	68.3%	59.5%	0%	98%	98%	98%
PSP awards vesting (% of maximum)	51.375%	0%	0%	0%	0%	0%	33%	0%	0%	86.4%
										100%

NOTE:

1. The following figure for 2021 represents the total remuneration of £3,549,000. The PSP award vesting for Michael Flowers for 2021 is £3,045,000.

PERCENTAGE CHANGE IN THE 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 directors between the 2019 and 2020 and 2020 and 2021 financial years, compared to that of the average for all eligible employees of the Group.

	2019 vs 2020			2020 vs 2021		
	Salary	Benefits	Average	Salary	Benefits	Average
Group Chief Executive	2.3%	0%	2.5%	8.2%	0%	9.6%
Group Finance Director	7.6%	0%	2.7%	4.6%	0%	4.9%
Group Legal Director & Company Secretary	2.1%	0%	2.8%	14.7%	0%	14.4%
Colin Peter Forster	0%	N/A	N/A	0%	N/A	N/A
Laure Bowen	N/A	N/A	N/A	11.3%	N/A	N/A
Andrew Davies	12.1%	N/A	N/A	8.6%	N/A	N/A
Stephen King	0%	N/A	N/A	0%	N/A	N/A
Fiona MacAulay	N/A	N/A	N/A	N/A	N/A	N/A
Average of other employees	4.0%	0%	3.0%	5.2%	0.2%	34.8%

NOTES

- The Group Legal Director & Company Secretary's salary was increased on 1 March 2020 reflecting the promotion of his new colleague with effect from 1 November 2017.
- Laure Bowen was appointed as a non-executive director on 1 August 2019. Non-executive directors' fees did not increase between 2019 and 2020. The percentage increase in fees paid to Mrs Bowen between 2019 and 2021 reflects the additional fees paid to her following her appointment as Chair of the Remuneration Committee on 4 March 2021 and the fee paid to her as the non-executive director with responsibility for employee engagement from 1 January 2021.
- The percentage increase in fees paid to Andrew Davies between 2019 and 2020 reflects his cessation as Chair of the Remuneration Committee on 4 March 2021. The percentage increase in fees paid to Mr Davies between 2020 and 2021 reflects the additional fee paid to him as Senior Independent Director with effect from 1 January 2021.
- Fiona MacAulay was appointed as a non-executive director on 3 June 2020. Non-executive directors' fees did not increase between 2020 and 2021.

CHIEF EXECUTIVE'S PAY RATIO

The table below shows how the Group Chief Executive's single remuneration figure for the 2021 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 decided 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 2021 for UK employees as at 31 October 2021 (with salaries for part-time employees converted on a full-time equivalent basis to a low equal comparison ratio); and
- employer pension contributions.

No components of pay and benefits were omitted in the purpose of the calculations, however, joiners and leavers during the year were excluded from the calculations.

Year	Method used	Total remuneration		
		25th percentile (ranked lowest)	50th percentile (ranked middle)	75th percentile (ranked highest)
2021	Method A	116.3	76.1	49.2
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
2021	£77,898	£43,161	£65,000	£30,513	£46,650	£72,113

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.

The pay ratios have increased for 2021 as a result of the inclusion of two PSP awards vesting in respect of 2021 for the Group Chief Executive (coupled with the greater emphasis on performance-related pay for the executive directors). Total remuneration for 2021 for Michael Ord includes the value derived from his PSP award which vested in July 2021 and the estimated value of his PSP award which is expected to vest in March 2022. No PSPs were eligible to vest for Mr Ord in 2020 given he only joined the Group in June 2018.

The reward policies and practices across the Group are considered by the Committee in the design process and implementation of the remuneration policy each year for the executive directors. On this basis, the Committee is satisfied that the median pay ratio is consistent with the pay, reward and progression policies across all employees.

DIRECTORS' REMUNERATION REPORT continued

ADDITIONAL STATUTORY INFORMATION ON REMUNERATION ARRANGEMENTS continued

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.

	2021 £m	2020 £m	% change
Staff costs	146.0	139.4	4%
Dividends	11.9	10.4	14%
Retained profits	56.2	28.0	101%

The dividends figures relate to amounts payable in respect of the relevant financial year.

Retained profits reflect the underlying success of the Group and the profit generated in the relevant financial year.

ADVISERS TO THE REMUNERATION COMMITTEE

FT Remuneration Consultants LLP ("FT") were retained by the Remuneration Committee to advise on remuneration and incentive plan related matters until 4 March 2021 and Korn Ferry were appointed as advisors to the Committee thereafter. Both FT and Korn Ferry are signatories to the Remuneration Consultants Group Code of Conduct. The Committee has reviewed the nature of the services provided by both FT and Korn Ferry and is satisfied that no conflict of interest exists in the provision of these services. The Company received no other services from FT or Korn Ferry during the year. The total fees payable to FT in respect of services to the Committee during the year were £10,667 (2020: £32,000) and the total fees payable to Korn Ferry for the year were £52,500 (2020: £nil). 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 Eard) and the Chief People Officer (Cancy 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	229,117,007	90.70%
Against	23,500,907	9.30%
Total votes cast (for and against excluding withheld votes)	252,617,909	100.0%
Votes withheld ¹	33,392	
Total votes cast (including withheld votes)	252,711,301	

NOTE

¹ A vote withheld is not a vote in law and will not interfere in the calculation of the proportion of votes cast 'for' and 'against' a resolution.

SHAREHOLDER VOTING ON THE DIRECTORS' REMUNERATION REPORT AT THE 2021 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 2021, the resolution relating to the directors' remuneration report received the following votes from shareholders.

For	234,753,766	99.84%
Against	378,934	0.16%
Total votes cast (for and against excluding withheld votes)	235,132,700	100.0%
Votes withheld ¹	763,929	
Total votes cast (including withheld votes)	235,896,629	

NOTE

¹ A vote withheld is not a vote in law and will not interfere in the calculation of the proportion of votes cast 'for' and 'against' a resolution.

APPROVAL OF THE DIRECTORS' REMUNERATION REPORT

The directors' remuneration report was approved by the Board on 14 December 2021.

Signed on behalf of the Board

Laurie Bowen

Chairman of the Remuneration Committee

14 December 2021

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 2021.

The following sections of the annual report are incorporated into the directors' report by reference:

- strategic report on pages 1 to 73;
- corporate governance report on pages 76 to 87;
- Audit Committee report on pages 88 to 91;
- directors' remuneration report on pages 94 to 120; and
- notes to the Group financial statements as detailed in this section.

BUSINESS REVIEW

The strategic report on pages 1 to 73 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 £41.5m (2020: £34.7m).

The directors are recommending the payment of a final dividend of 3.2p per ordinary share which, together with the interim dividend of 1.6p per share paid in September 2021, gives a total for the year of 4.8p (2020: 3.9p). The final dividend is subject to approval by shareholders at the Annual General Meeting on 3 March 2022 and has not therefore been included as a liability in these financial statements.

DIRECTORS AND THEIR INTERESTS

The current directors are shown on pages 14 and 15.

In accordance with the Company's Articles of Association, all directors are required to submit themselves for re-election at every Annual General Meeting. All directors will therefore be seeking re-election at the Annual General Meeting on 3 March 2022.

Details of the service contracts entered into between the Company and the executive directors are set out in the directors' remuneration report on page 104. 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 2021.

Information required in relation to directors' shareholdings is set out in the directors' remuneration report on page 116.

EMPLOYEES AND EMPLOYEE CONSULTATION

Details of the Group's employment policies and employee consultation practices are set out on pages 49 to 53.

POLITICAL DONATIONS

No political donations were made during the year (2020: £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 60.

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 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.

The cumulative preference shares, which are also publicly traded on the London Stock Exchange, 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. There are no restrictions on the transfer of the cumulative preference shares.

DIRECTORS' REPORT continued

SHARE CAPITAL AND SHAREHOLDER RIGHTS continued

GENERAL continued

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 (2020 nil); during the year. All of the Company's 1p ordinary shares held in treasury were issued in satisfaction of awards under the Company's share based incentive plans during the year and no shares were held in treasury at 31 October 2021 (2020: 675,392).

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 13 December 2021, 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
Wesco Limited	8.1
Royal London Asset Management Limited	3.2
Old Mutual Asset Managers	3.1
Schroders Plc	3.1
Barclays Bank	3.1
Ameriprise Financial, Inc. and its Group	3.0
J.C. Hambro Capital Management Limited	3.0
AXA Investment Managers S.A.	3.0
Aviva PLC and its subsidiaries	3.0
ICIL Limited	Below 3.0
Norges Bank	4.9
Majestic Asset Management Limited	4.9
J.P. Morgan Chase & Co.	4.9
Nestlé Investment Management Limited	4.8
Prudential plc	4.8
Investec Asset Management Limited	4.8
Standard Life Investments Limited	4.8
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 26 July 2021.

THE CHEMRING GROUP PERFORMANCE SHARE PLAN 2016 (THE "2016 PSP")

The 2016 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 16 December 2020.

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 performance criteria. Awards under the RSP may only be satisfied with market purchased shares. Awards were granted under the plan on 14 July 2021.

GOING CONCERN

Details of the considerations arrived at by the directors in preparing the financial statements on a going concern basis are set out in the viability statement on page 72.

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 23);
- 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 3 March 2022, 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 the requirements of 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*.

The Group financial statements are required under the UK Disclosure Guidance and Transparency Rules to be prepared in accordance with IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the EU ('IFRSs as adopted by the EU').

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 the 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and 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 include 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, to be 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 14 December 2021 and is signed on its behalf by:


Michael Ord

Group Chief Executive
14 December 2021


Sarah Ellard

Group Legal Director
14 December 2021

CONSOLIDATED INCOME STATEMENT

For the year ended 31 October 2021

	Note	2021			2020		
		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	393.3	—	393.3	402.5	—	402.5
Operating profit	2,3	57.5	(7.1)	50.4	54.7	(8.4)	46.3
Finance expense	7	(1.6)	—	(1.6)	(3.0)	—	(3.0)
Profit before tax		55.9	(7.1)	48.8	51.7	(8.4)	43.3
Taxation	8	(8.3)	1.0	(7.3)	(9.1)	0.5	(8.6)
Profit after tax		47.6	(6.1)	41.5	42.6	(7.9)	34.7
Discontinued operations							
(Loss)/profit after tax from discontinued operations	5	—	—	—	(0.1)	0.1	—
Profit after tax		47.6	(6.1)	41.5	42.5	(7.8)	34.7

	Note	2021			2020		
		Underlying performance		Total	Underlying performance		Total
Earnings per ordinary share							
Continuing operations							
Basic	10	16.9p		14.7p	15.1p		12.3p
Diluted	10	16.5p		14.4p	14.8p		12.0p
Continuing and discontinued operations							
Basic	10	16.9p		14.7p	15.1p		12.3p
Diluted	10	16.5p		14.4p	14.7p		12.0p

¹ Further information about non-underlying items is set out in note 3

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 October 2021

	2021 £m	2020 £m
Profit after tax attributable to equity holders of the parent as reported	41.5	34.7
Items that will not be reclassified subsequently to profit and loss		
Actuarial gains/(losses) on defined benefit pension schemes	30	(19)
Movement on deferred tax relating to pension schemes	24	(7)
	4.0	(12)
Items that may be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	(8.3)	(0.2)
Exchange difference reclassified to income statement on disposal of foreign operation	—	(1.4)
Tax on exchange differences on translation of foreign operations	0.1	0.5
	(8.2)	(1.1)
Total comprehensive income attributable to equity holders of the parent	37.3	32.4

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 October 2021

	Share capital £m	Share premium account £m	Shareholdings £m	Revaluation reserve £m	Transfer reserve £m	Retention allowance £m	Own shares £m	Total £m
At 1 November 2020	28	306.7	12.9	1.0	(18.9)	28.0	(2.9)	329.6
Profit after tax						41.5		41.5
Other comprehensive (loss)/income					(8.3)	6.2		(2.1)
Tax relating to components of other comprehensive (loss)/income					0.1	(2.2)		(2.1)
Total comprehensive income					(8.2)	45.5		37.3
Ordinary shares issued		0.4	-		-			0.4
Share-based payments (net of settlement)						4.5		4.5
Dividends paid						(11.9)		(11.9)
Purchase of shares by employee share ownership plan trust						(7.1)		(7.1)
Transactions in own shares						(2.9)	2.9	
Transfer between reserves				0.1		0.1	-	
At 31 October 2021	2.8	307.1	12.9	0.9	(27.1)	56.2	-	352.8
	Share capital £m	Share premium account £m	Shareholdings £m	Revaluation reserve £m	Transfer reserve £m	Retention allowance £m	Own shares £m	Total £m
At 1 November 2019	28	306.2	12.9	1.0	(17.8)	8.5	(7.8)	305.8
Profit after tax						34.7		34.7
Other comprehensive (loss)/income					(1.6)	(1.9)		(3.5)
Tax relating to components of other comprehensive loss					0.5	0.7		1.2
Total comprehensive income					(1.1)	33.5		32.4
Ordinary shares issued		0.5						0.5
Share-based payments (net of settlement)						3.6		3.6
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	28	306.7	12.9	1.0	(18.9)	28.0	(2.9)	329.6

CONSOLIDATED BALANCE SHEET

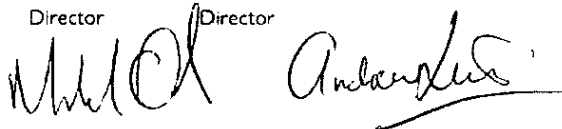
As at 31 October 2021

		2021		2020	
	Note	£m	£m	£m	£m
Non-current assets					
Goodwill	11	108.7		108.5	
Development costs	12	30.0		29.8	
Other intangible assets	12	14.1		16.6	
Property, plant and equipment	13	198.7		194.0	
Retirement benefit surplus	30	13.7		7.6	
Deferred tax	24	18.2		15.7	
			383.1		372.2
Current assets					
Inventories	15	80.7		91.3	
Trade and other receivables	16	60.6		62.8	
Cash and cash equivalents	17	5.8		14.7	
Derivative financial instruments	22	1.0		0.4	
			148.1		169.2
Total assets			531.5		541.4
Current liabilities					
Borrowings	18	(0.4)			
Lease liabilities	19	(1.4)		(1.5)	
Trade and other payables	20	(85.7)		(97.2)	
Provisions	23	(2.6)		(3.3)	
Current tax		(12.0)		(9.1)	
Derivative financial instruments	22	(0.4)		(0.7)	
			(102.5)		(111.8)
Non-current liabilities					
Borrowings	18,33	(28.1)		(57.5)	
Lease liabilities	19	(2.4)		(3.8)	
Provisions	23	(14.9)		(15.7)	
Deferred tax	24	(30.7)		(22.9)	
Preference shares	18,25	(0.1)		(0.1)	
			(76.2)		(100.0)
Total liabilities			(178.7)		(211.8)
Net assets			352.8		329.6
Equity					
Share capital	25	2.8		2.8	
Share premium account	26	307.1		306.7	
Special capital reserve	26	12.9		12.9	
Revaluation reserve	26	0.9		1.0	
Translation reserve	26	(27.1)		(18.9)	
Retained earnings		56.2		28.0	
			352.8		332.5
Own shares	27	—		(2.9)	
Total equity			352.8		329.6

These financial statements of Chemring Group PLC (registered number 86662) were approved and authorised for issue by the Board of directors on 14 December 2021.

Signed on behalf of the Board

Michael Ord **Andrew Lewis**
Director Director



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CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 October 2021

	Note	2021 £m	2020 £m
Cash flows from operating activities			
Cash generated from continuing underlying operations	3*	80.0	82.4
Cash impact of continuing non-underlying items		(1.3)	(3.6)
Cash utilised in discontinued underlying operations		—	(2.6)
Cash impact of discontinued non-underlying items		(0.4)	(1.3)
Cash flows from operating activities		78.3	74.9
Tax (paid)/received		(2.6)	1.0
Net cash inflow from operating activities		75.7	75.9
Cash flows from investing activities			
Purchases of intangible assets		(2.2)	(5.2)
Purchases of property, plant and equipment		(28.0)	(35.6)
Customer funding for capital programmes		—	0.9
Acquisition of subsidiary net of cash acquired	29	(5.1)	—
Proceeds on disposal of subsidiary		0.4	14.5
Net cash outflow from investing activities		(34.9)	(25.4)
Cash flows from financing activities			
Dividends paid	9	(11.9)	(10.4)
Purchase of own shares		(7.1)	(2.4)
Proceeds from issue of shares		0.4	0.5
Finance expense paid		(2.6)	(3.0)
Capitalised facility fees paid		(1.1)	—
Drawdown of borrowings		29.2	108.0
Repayments of borrowings		(55.7)	(123.1)
Payment of lease liabilities		(1.6)	(1.7)
Net cash outflow from financing activities		(50.4)	(32.1)
(Decrease)/increase in cash and cash equivalents	32	(9.6)	18.4
Cash and cash equivalents at beginning of year (including bank overdraft)		14.7	(3.3)
Effect of foreign exchange rate changes		0.3	(0.4)
Cash and cash equivalents at end of year (including bank overdraft)	17.33	5.4	14.7

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	2021 £m
UK	75.7	44.4	120.1
US	62.9	137.3	200.2
Europe	5.1	48.6	53.7
Asia Pacific	2.1	13.7	15.8
Rest of the world	0.8	2.7	3.5
	146.6	246.7	393.3

	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

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	2021 £m
Goods	56.4	242.8	299.2
Services	90.2	3.9	94.1
	146.6	246.7	393.3

	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

All revenues recognised arise from contracts with customers.

As at 31 October 2021, £500.8m (2020: £476.0m) of revenue was outstanding in respect of obligations that were unfilled or only partially fulfilled as at the year end; £358.0m (2020: £326.0m) of this revenue is expected to be recognised in the next financial year and £142.8m (2020: £150.0m) 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 find and detect on ("E/F/D") 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, via forms, cartridge/propellant actuated devices, pyrotechnic devices for satellite launch and deployment, missile components, propellants, separation sub-systems, actuators and energetic materials.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

2. BUSINESS SEGMENTS continued

A segmental analysis of revenue and operating profit is set out below:

Year ended 31 October 2021	Sensors & Information £m	Countermeasures & Energetics £m	Unallocated* £m	Total £m
Revenue	146.6	246.7	—	393.3
Segment result before depreciation, amortisation, non-underlying items and discontinued operations	34.4	56.1	(14.1)	76.4
Depreciation	(2.7)	(15.5)	—	(18.2)
Amortisation	(0.1)	(0.6)	—	(0.7)
Segmental underlying operating profit	31.6	40.0	(14.1)	57.5
Amortisation of acquired intangibles (note 3)	(4.1)	(2.1)	—	(6.2)
Non-underlying items (note 3)	(1.6)	—	0.7	(0.9)
Impact of non-underlying items on profit before tax (note 3)	(5.7)	(2.1)	0.7	(7.1)
Segmental operating profit	25.9	37.9	(13.4)	50.4
Finance expense	—	—	(1.6)	(1.6)
Profit before tax	—	—	(15.0)	48.8
Tax	—	—	(7.3)	(7.3)
Profit for the year	—	—	(22.3)	41.5

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	—	—	(23.7)	34.7

* Unallocated to sales department, corporate overheads, non-current assets, discontinued operations and segmental

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, excluding retirement benefit surplus and deferred tax, is shown below.

Non-current assets by location	2021 £m	2020 £m
UK	143.4	135.1
US	178.1	185.1
Norway	12.4	8.8
Australia	17.6	19.9
	351.5	348.9

INFORMATION ON MAJOR CUSTOMERS

Included in segmental revenues for continuing operations are revenues of £166.9m (2020: £154.2m) 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 for the year.

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:

	2021 £m	2020 £m
Non-underlying items and non-underlying measures		
Gain on the movement in the fair value of derivative financial instruments (note 22)	0.7	0.5
Acquisition expenses (note 29)	(1.6)	—
Impact of non-underlying items on EBITDA	(0.9)	0.5
Amortisation of acquired intangibles arising from business combinations (note 12)	(6.2)	(8.9)
Impact of non-underlying items on profit before tax	(7.1)	(8.4)
Tax impact of non-underlying items	1.0	0.5
Impact of non-underlying items on continuing profit after tax	(6.1)	(7.9)
Non-underlying discontinued operations after tax	—	0.1
Impact of non-underlying items on profit after tax	(6.1)	(7.8)
Underlying profit after tax	47.6	42.5
Statutory profit after tax	41.5	34.7

The Alternative Performance Measures used may not be comparable across companies. 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. The cash impact of non-underlying items includes the impact of exceptional items from prior years where the income statement and cash flow timings differ.

AMORTISATION OF ACQUIRED INTANGIBLES

Included in non-underlying items is the amortisation charge arising from business combinations of £6.2m (2020: £8.9m). 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 £0.7m gain (2020: £0.5m gain) on the movement in fair value of derivative financial instruments. This is excluded from underlying earnings to ensure the recognition of the gain or loss on the derivative matches the timing of the underlying transaction.

ACQUISITION EXPENSES

Included in non-underlying items is £1.6m (2020: £nil) of acquisition expenses – this includes £0.4m (2020: £nil) relating to deferred consideration contingent on continued employment of the former owners of Clivalca, which has been accounted for as equity-settled share-based payments under IFRS 2 *Share-based Payments*. We have classified this cost as a non-underlying item as it is a non-recurring cost relating to an acquisition. See note 29 for further details. The acquisition expenses 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 costs of acquiring a business rather than organically developed, these costs have been excluded from the underlying measures.

TAX

The tax impact of continuing non-underlying items comprises a £1.0m tax credit (2020: £0.5m credit) on the above non-underlying items.

DISCONTINUED OPERATIONS

Further details on the results of discontinued operations are presented in note 5.

NET DEBT

A reconciliation and analysis 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:

	2021 £m	2020 £m
Operating profit	50.4	46.3
Amortisation arising from business combinations (note 12)	6.2	8.9
Amortisation of development costs (note 12)	0.6	1.4
Amortisation of patents and licences (note 12)	0.1	—
Depreciation of property, plant and equipment (note 13)	18.2	18.5
EBITDA	75.5	75.1
Non-underlying items	0.9	(0.5)
Underlying EBITDA	76.4	74.6

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

3. ALTERNATIVE PERFORMANCE MEASURES continued

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 2021 at the average exchange rates for the comparative year ended 31 October 2020.

4. OPERATING PROFIT

Operating profit from continuing operations is stated after charging/(crediting):

		2021 £m	2020 £m
Research and development costs	internally funded	8.5	4.5
Amortisation:	arising from business combinations	6.2	8.9
	development costs	0.6	1.4
	patents and licences	0.1	—
Depreciation of property, plant and equipment	owned assets	16.8	16.9
	leased assets	1.4	1.6
Loss on disposal of non-current assets		0.1	0.3
Government grant amortisation		(0.5)	—
Foreign exchange (gains)/losses		(0.8)	1.5
Staff costs (note 6)		146.0	139.4
Cost of inventories recognised as an expense		128.0	134.7

The remaining items within operating profit predominantly relate to general and administrative expenses and production overheads.

A detailed analysis of the auditor's remuneration on a worldwide basis is set out below:

	2021 £m	2020 £m
Auditor's remuneration		
Fees payable to the Company's auditor and its associates for:		
the audit of the Company's annual accounts	0.3	0.2
the audit of the Company's subsidiaries, pursuant to legislation	0.7	0.6
	1.0	0.8
Other services		
Audit-related assurance services	0.1	0.1
	1.1	0.9

Included in the fees for the audit of the Company's annual accounts is £0.1m (2020: £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 88 to 91 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.

	2021 £m	2020 £m
Revenue	—	9.5
Underlying operating loss from discontinued operations	—	(0.1)
Tax on the underlying operating loss from discontinued operations	—	—
Underlying loss after tax	—	(0.1)
Loss after tax is analysed as:		
Before exceptional items	—	(0.1)
Exceptional items	—	0.1
Tax on exceptional items	—	—
	—	0.1
Loss for the year from discontinued operations	—	—

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.

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.

	2020 £m
Consideration received in cash	13.8
Total disposal consideration	13.8
Net working capital adjustment	(0.8)
Net assets and liabilities disposed of	(9.3)
Disposal costs	(1.6)
Profit on disposal before tax	2.1
Reclassification of foreign currency translation reserve	1.4
Profit on disposal after tax	3.5

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

	2020 £m
Trade and other receivables	10.5
Total assets	10.5
Trade and other payables	(0.4)
Total liabilities	(0.4)
Net assets	10.1

The cash flow from discontinued operations is disclosed in note 31.

6. STAFF COSTS

The average monthly number of employees, including executive directors, was:

	2021 Number	2020 Number
Direct	1,381	1,381
Indirect	905	899
Continuing operations	2,286	2,280
Discontinued operations	—	104
	2,286	2,384

The costs incurred in respect of employees at continuing operations, including share-based payments, were:

	2021 £m	2020 £m
Wages and salaries	121.4	116.9
Social security costs	12.9	12.4
Other pension costs	6.0	6.1
Share-based payment charge	5.7	4.0
Staff costs	146.0	139.4

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

7. FINANCE EXPENSE

	2021 £m	2020 £m
Bank overdraft and loan interest	1.3	3.3
Amortisation of direct finance costs	0.6	0.2
Interest cost on retirement benefit obligations (note 30)	0.1	0.1
Lease liability interest	0.1	0.2
	2.1	3.8
Amount capitalised	(0.5)	(0.8)
Finance expense	1.6	3.0

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 1.3% (2020: 3.0%). During the year £0.5m (2020: £0.8m) of interest was capitalised in relation to the Tennessee capacity expansion programme.

8. TAXATION

	2021 £m	2020 £m
Current tax charge – current year	7.2	5.8
Current tax credit – prior year	(1.9)	(1.1)
Deferred tax charge – current year (note 24)	1.2	3.0
Deferred tax charge – prior year (note 24)	0.8	0.9
Tax charge for continuing operations	7.3	8.6

Income tax in the UK is calculated at 19.0% (2020: 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:

	2021 £m	2020 £m
Profit before tax from continuing operations	48.8	43.3
Tax in the UK (corporation tax rate of 19.0% (2020: 19.0%))	9.3	8.2
Expenses not deductible (income not taxable) for tax purposes	—	(0.9)
Changes in tax rates	1.7	(0.4)
Tax losses not previously recognised	(4.4)	—
Prior period adjustments	(1.1)	(0.2)
Overseas profits taxed at rates different to the UK standard rate	1.8	1.9
Tax charge for continuing operations	7.3	8.6

In addition to the tax charge in the income statement, a tax charge of £2.2m (2020: £1.2m) credit has been recognised in equity in the year.

The effective rate of tax on the profit before tax of the Group is 15.0% (2020: 19.5%), and the effective rate of tax on the underlying profit before tax of the Group is 14.8% (2020: 17.6%). The effective rate of tax on the underlying profit before tax is lower than the 2020 effective tax rate due to the recognition of a deferred tax asset in respect of future US interest deductions.

Included within the tax charge for continuing operations is a current year non underlying deferred tax credit of £1.0m (2020: £0.5m), predominantly relating to tax on amortisation of acquired intangibles.

The UK Finance Bill 2021 was published on 11 March 2021 and substantively enacted on 24 May 2021. The bill provides for an increase in the rate of corporation tax from 19% to 25% with effect from 1 April 2023. As a result of this, the deferred tax liability has increased by £7.2m and the deferred tax asset has increased by £0.5m as at 31 October 2021.

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 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

	2021 £m	2020 £m
Dividends paid on ordinary shares of 1p each		
Final dividend of 2.6p per share for the year ended 31 October 2020 (2.4p per share for the year ended 31 October 2019)	7.4	6.8
Interim dividend of 1.6p per share for the year ended 31 October 2021 (1.3p per share for the year ended 31 October 2020)	4.5	3.6
Total dividends	11.9	10.4

Subject to approval at the Annual General Meeting, the final dividend of 3.7p per ordinary share will be paid on 31 March 2022 to all shareholders registered at the close of business on 11 March 2022. The estimated cash value of this dividend is £9.0m. The total dividend for the year will therefore be 4.8p (2020: 3.9p) 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 2021.

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 2021 and 31 October 2021.

10. EARNINGS PER ORDINARY SHARE

Earnings per share is based on the average number of shares in issue, excluding own shares held, of 281,555,716 (2020: 281,447,284).

Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 287,985,451 (2020: 288,416,915).

The number of shares used in the calculations is as follows:

	2021 Ordinary shares Number millions	2020 Ordinary shares Number millions
Weighted average number of shares used to calculate basic earnings per share	281.6	281.4
Additional shares issuable other than at fair value in respect of options outstanding	6.4	7.0
Weighted average number of shares used to calculate diluted earnings per share	288.0	288.4

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

	2021			2020		
	£m	Basic EPS (Pence)	Diluted EPS (Pence)	£m	Basic EPS (Pence)	Diluted EPS (Pence)
Underlying profit after tax	47.6	16.9	16.5	42.6	15.1	14.8
Non-underlying items, note 21	(6.1)			(7.9)		
Total profit after tax	41.5	14.7	14.4	34.7	12.3	12.0

11. GOODWILL

Cost	
At 1 November 2019	136.2
Disposals	(8.9)
Foreign exchange adjustments	0.5
At 31 October 2020	127.8
Acquisitions through business combinations, note 29	3.1
Foreign exchange adjustments	(6.4)
At 31 October 2021	124.5
Accumulated impairment losses	
At 1 November 2019	(87.7)
Disposals	8.9
Foreign exchange adjustments	(0.5)
At 31 October 2020	(79.3)
Foreign exchange adjustments	3.5
At 31 October 2021	(75.8)
Carrying amount	
At 31 October 2021	108.7
At 31 October 2020	108.5

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

11. GOODWILL continued

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 32 to 37.

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 7.1% (2020: 6.2%) 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% (2020: 1% to 3%).

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 assigned 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 1.75% (2020: 1.50%) in perpetuity. Growth rates are based on management's view of long-term 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 financing 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:

	2021 %	2020 %	2021 £m	2020 £m
Roke Manor Research Limited	11.7	10.6	31.5	28.4
Chemring Energetics UK Limited	9.7	8.6	14.6	14.6
Chemring Sensors & Electronic Systems Inc	10.6	9.5	34.3	36.4
Chemring Energetics Devices Inc	10.6	11.5	15.2	16.1
Other			13.1	13.0
			108.7	108.5

The goodwill arising from the acquisition of the Caspaci Group of £3.1m during the year is allocated to the Roke Manor Research Limited CGU as it will form part of this operating company going forward (see note 29 for further details).

The pre-tax discount rates used for other CGUs ranged from 8.6% to 11.3% (2020: 8.6% to 10.6%).

Following a detailed review, no impairment losses were recognised in the years ended 31 October 2021 and 31 October 2020 for continuing operations.

Stress testing was performed on the forecasts to consider the impact of reasonably possible worst case scenarios over the forecast period, including a 1% increase in discount rate, a 1% reduction in long-term growth rate, a 10% fall in the forecast cash flows or a \$0.10 weakening in the sterling to US dollar exchange rate; even under any of those 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	Other intangible assets £m	Total £m
Cost					
At 1 November 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	148.9
Acquisitions through business combinations (note 29)	—	2.5	2.1	—	4.6
Additions	2.1	—	—	0.1	0.1
Disposals	(0.5)	—	—	(0.1)	(0.1)
Foreign exchange adjustments	(1.9)	(4.8)	(1.9)	(0.1)	(6.8)
At 31 October 2021	55.6	91.5	48.8	0.5	146.4
Amortisation					
At 1 November 2019	(25.9)	(82.5)	(66.1)	—	(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)
Charge	(0.6)	(3.8)	(2.4)	(0.1)	(6.3)
Disposals	0.5	—	—	0.1	0.1
Foreign exchange adjustments	0.6	4.4	1.4	0.1	5.9
At 31 October 2021	(25.6)	(86.2)	(40.3)	(0.2)	(126.7)
Carrying amount					
At 31 October 2021	30.0	5.3	8.5	0.3	14.1
At 31 October 2020	29.8	7.0	9.3	0.3	16.6

Included within the development costs of £30.0m, individually material balances relate to joint Biological Tactical Detection System of £8.1m (2020: £8.6m), Next Generation Chemical Detector of £13.6m (2020: £12.0m) and Perceive of £4.7m (2020: £4.0m). 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 £5.3m includes individually material balances relating to Chemring Sensors & Electronic Systems of £1.2m (2020: £4.7m), Chemring Energetic Devices of £1.2m (2020: £1.7m) and Roxe (including the Cubica Group) of £2.9m (2020: £1.6m). The remaining amortisation periods for these assets are two years, three years and ten years respectively.

Acquired customer relationships of £8.5m include individually material balances relating to Chemring Energetic Devices of £5.3m (2020: £7.2m), Chemring Sensors & Electronic Systems of £1.2m (2020: £1.9m) and Roxe (including the Cubica Group) of £2.0m (2020: £1.1m). The remaining amortisation periods for these assets are five years, two years and ten years respectively.

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13. PROPERTY, PLANT AND EQUIPMENT

	Cost or valuation At 1 November 2019 £m	Cost or valuation At 31 October 2020 £m	Right-of-use asset At 31 October 2020 £m	Right-of-use asset At 31 October 2020 £m	At 31 October 2020 £m
Cost or valuation					
At 1 November 2019	128.3	127.5			255.8
Recognition of right-of-use asset on initial application of FRS 16			5.9	0.1	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
Reclassification	0.6	0.6			
Additions	7.4	9.2	0.3		26.9
Disposals	(0.3)	(10.1)	(0.2)		(10.6)
Foreign exchange adjustments	(3.1)	(3.1)	(0.3)	0.1	(6.4)
At 31 October 2021	131.2	147.8	5.5	0.7	285.2
Depreciation					
At 1 November 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)
Charge	(3.4)	(13.4)	(1.3)	(0.1)	(18.2)
Disposals	0.3	10.0	0.2		10.5
Foreign exchange adjustments	0.6	1.3	0.1		2.0
At 31 October 2021	(21.8)	(62.1)	(2.4)	(0.2)	(86.5)
Carrying amount					
At 31 October 2021	109.4	85.7	3.1	0.5	198.7
At 31 October 2020	107.3	81.9	4.3	0.5	194.0

During the year £0.5m (2020: £0.8m) of interest was capitalised, as set out in note 7. £1.1m (2020: £1.1m) of capitalised interest was charged as depreciation and £0.1m (2020: £0.1m) was disposed of. This results in a net book value for capitalised interest of £7.0m (2020: £9.5m).

Included within land and buildings and plant and equipment are assets under construction of £70.8m and £24.2m respectively (2020: £21.7m and £15.5m). 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.

	2021 £m	2020 £m
30 September 1997 depreciated replacement cost	4.0	4.0
Freehold at cost	127.2	122.6
Cost of land and buildings as at 31 October	131.2	126.6

If stated under historical cost principles, the comparable amounts for the total of land and buildings would be:

	2021 £m	2020 £m
Cost	130.4	124.7
Accumulated depreciation	(21.9)	(18.4)
Historical cost value	108.5	106.3

All other tangible fixed assets are stated at historical cost.

At 31 October 2021, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £10.4m (2020: £16.9m).

Cash flows from purchases of property, plant and equipment are £28.0m (2020: £35.6m). The difference to the additions total presented above is predominantly the movement in accrued capital expenditure.

14. SUBSIDIARY UNDERTAKINGS

All subsidiary undertakings have been reflected in these financial statements. The subsidiary undertakings held at 31 October 2021, 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, unless otherwise stated.

Subsidiary undertaking	Country of incorporation (or registered office, if applicable)	Operating segment
Chemring Australia Pty Limited	Australia	Countermeasures & Energetics
B.D.U. Systems Limited	England	Dormant
Chemring Countermeasures Limited*	England	Countermeasures & Energetics
Chemring Energetics Limited*	England	Dormant
Chemring Europe Limited*	England	Dormant
Chemring Finance Europe Limited	England	Non-trading
Chemring Investments Limited	England	Dormant
Chemring Limited*	England	Dormant
Chemring North America Limited	England	Dormant
Chemring Prime Contracts Limited*	England	Non-trading
Chemring Technology Solutions Limited	England	Countermeasures & Energetics
CHG Overseas Investments Limited*	England	Non-trading
CHG Overseas Limited*	England	Holding company
Chemring UAE Limited	England	Non-trading
Cubica Technology Limited*	England	Sensors & Information
Greys Exports Limited	England	Dormant
Kembrey Engineering Limited*	England	Dormant
Parkway No. 10 Limited	England	Dormant
Q6 Holdings Limited*	England	Non-trading
Richmond E&I Limited	England	Dormant
Richmond Electronics & Engineering Limited	England	Dormant
Roke Manor Research Limited*	England	Sensors & Information
Vigil AI 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
CHS Farm, Inc.	US	Holding company
CHG Group, Inc.	US	Holding company
Kigore 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

* Shares directly held by Chemring Group PLC

** 80% indirectly owned by Chemring Group PLC (see note 29)

CHG Overseas Limited, Chemring Finance Europe Limited, Chemring UAE Limited, CHG Overseas Investments Limited, Cubica Technology Limited and Q6 Holdings Limited are exempt from the requirement to file audited accounts for the year ended 31 October 2021 by virtue of section 479A of the Companies Act 2006. See page 176 for the registered offices of the subsidiary undertakings.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

15. INVENTORIES

	2021 £m	2020 £m
Raw materials	36.6	50.3
Work in progress	27.2	25.2
Finished goods	16.9	15.8
	80.7	91.3

There are no significant differences between the replacement cost of inventory and the carrying amount shown above. The Group recognised £2.3m (2020: £5.5m) 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

	2021 £m	2020 £m
Trade receivables	41.2	46.4
Allowance for doubtful debts	(0.3)	(0.3)
	40.9	45.9
Advance payments to suppliers	0.5	0.2
Other receivables	3.7	3.2
Prepayments	5.5	4.0
Accrued income	10.0	9.5
	60.6	62.8

All amounts shown above are due within one year.

The average credit period taken by customers on sales of goods, calculated using a cobitack basis, is 25 days (2020: 30 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 a full provision 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 2021, £0.8m of gross trade receivables were aged greater than 30 days past due (2020: £1.5m).

The directors consider that the carrying amount of trade and other receivables approximates to their fair values.

Of the £9.3m of accrued income at 31 October 2020, £9.5m had been billed and paid in the year. Of the £10.0m of accrued income at 31 October 2021, 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 £5.8m (2020: £14.7m) less the bank overdraft included in short term borrowings of £0.4m (2020: £nil), as the overdraft is held for the purpose of meeting short term cash commitments.

18. BORROWINGS

	2021 £m	2020 £m
Within current liabilities		
Bank overdrafts – US dollar denominated	0.4	
Borrowings due within one year	0.4	
Within non-current liabilities		
Bank borrowings	28.1	57.5
Preference shares	0.1	0.1
Borrowings due after more than one year	28.2	57.6
Total borrowings	28.6	57.6

Analysis of borrowings by currency

	2021 £m	2020 £m
sterling	0.1	0.1
US dollar	28.5	57.5
	28.6	57.6

18. BORROWINGS *continued*

The weighted average interest rates paid were as follows:

	2021 %	2020 %
Bank overdrafts	1.0	1.5
UK bank loans	—	1.5
— Sterling denominated		
— US dollar denominated	1.9	3.3

An analysis of borrowings by maturity is as follows:

	2021			2020		
	Bank loans and overdrafts £m	Preference shares £m	Total £m	Bank loans and overdrafts £m	Preference shares £m	Total £m
Borrowings falling due						
– within one year	0.4	—	0.4	—	—	—
Borrowings falling due						
– within one to two years	—	—	—	57.5	—	57.5
– within two to five years	28.1	—	28.1	—	—	—
– after five years	—	0.1	0.1	—	0.1	0.1
	28.1	0.1	28.2	57.5	0.1	57.6
Total borrowings	28.5	0.1	28.6	57.5	0.1	57.6

The Group's principal facilities comprised a £150m revolving credit facility and a \$10m overdraft. These were established in July 2021 with a syndicate of six banks and run until December 2024 with three 'one year' options to extend at the lenders' discretion. 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.

	2021 £m	2020 £m
Undrawn borrowing facilities	128.1	86.4

The Group is subject to two key financial covenants, which are tested quarterly. These covenants relate to the coverage 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 and therefore the coverage ratio of 0.37 times differs to the ratio of 0.35 times that is disclosed elsewhere in the annual report and accounts, which is calculated using the closing rates of exchange. The Group was in compliance with the covenants throughout the year. The year end coverage ratio was 0.37 times (covenant limit of 3 times) and the year end interest cover ratio was 54 times (covenant floor of 4 times).

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 £0.8m (2020: £0.9m). In total, payments of £1.6m (2020: £1.7m) were made under leasing contracts, included in the financing activities section of the cash flow is £1.5m (2020: £1.5m) to repay the principal portion of the lease and £0.1m (2020: £0.2m) to repay lease interest, included in the operating activities section of the cash flow is £0.8m (2020: £0.9m) relating to short-term and low-value leases.

A maturity analysis of the future undiscounted lease payments in respect of the Group's lease liabilities is presented in the table below.

	2021 £m	2020 £m
Lease liabilities falling due		
– within one year	1.4	1.5
Lease liabilities falling due		
– within one to two years	1.6	1.8
– within two to five years	1.0	2.3
	2.6	4.1
Impact of discounting	(0.2)	(0.3)
Lease liabilities included in balance sheet as at 31 October	3.8	3.8

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

20. TRADE AND OTHER PAYABLES

	2021 £m	2020 £m
Within current liabilities		
Trade payables	13.1	19.9
Other payables	29.0	23.4
Interest payable	—	1.8
Other tax and social security	4.7	3.7
Advance receipts from customers	17.1	22.8
Accruals	17.3	17.1
Deferred income	4.5	6.5
	85.7	97.2

Other payables of £29.0m (2020: £23.4m) includes payable related creditors of £21.7m (2020: £15.8m).

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 £22.8m included in advance receipts from customers recognised at 31 October 2020 has been recognised as revenue in 2021. £20.3m, £10.3m. Of the £17.1m of advanced receipts from customers at 31 October 2021, £17.1m is relevant to goods and services that will be delivered and provided within a year. No revenue was recognised in 2021 from performance obligations satisfied in previous years.

The average credit period taken on purchases of goods is 18 days (2020: 26 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 with which the Group has long-term business relationships. The Group's principal customers are government defence departments, such as the US Department of Defense (US DoD) and the UK Ministry of Defence (UK MOD), 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 2021 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 no further 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.

The Group's principal debt facilities comprised a £100m revolving credit facility and a \$10m overdraft. These were established in July 2021 with a syndicate of six banks and run until December 2024 with three 'one-year' options to extend. As at 31 October 2021, the RCF was drawn by £29.2m (2020: £38.0m).

(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.

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 2021, 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.

	2021		2020	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Assets carried at amortised cost				
Trade receivables	40.9	40.9	45.9	45.9
Accrued income	10.0	10.0	9.5	9.5
Other receivables	3.7	3.7	3.2	3.2
Cash and cash equivalents	5.8	5.8	14.7	14.7
Assets carried at fair value				
Derivative financial instruments	1.0	1.0	0.4	0.4
Liabilities carried at fair value				
Derivative financial instruments	(0.4)	(0.4)	(0.7)	(0.7)
Liabilities carried at amortised cost				
Trade payables	(13.1)	(13.1)	(19.9)	(19.9)
Other payables	(29.0)	(29.0)	(25.4)	(25.4)
Interest payable	—	—	(1.8)	(1.8)
Accruals	(17.3)	(17.3)	(17.1)	(17.1)
Lease liabilities	(3.8)	(3.8)	(5.3)	(5.3)
Borrowings	(28.6)	(28.6)	(57.6)	(57.6)

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.

	2021 £m	2020 £m
included in current assets	1.0	0.4
included in current liabilities	(0.4)	(0.7)
Forward foreign exchange contracts	0.6	(0.3)

There was a £0.7m gain/(2020: £0.0m gain) on the movement in the fair value of derivative financial instruments recognised in the income statement.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

22. FINANCIAL INSTRUMENTS continued

The table below details the remaining contractual maturities of the Group's derivative financial instruments and loans at the reporting date. The amounts are gross and undiscounted and include interest payments estimated based on the conditions existing at the reporting date.

	2021			2020		
	Derivative instruments £m	Loans and overdrafts £m	Total £m	Derivative instruments £m	Loans and overdrafts £m	Total £m
Falling due:						
- within one year	0.6	(0.7)	(0.1)	0.3	—	(0.3)
- within one to two years	—	(0.3)	(0.3)	—	(57.5)	(57.5)
- within two to five years	—	(28.4)	(28.4)	—	(0.1)	(0.1)
	0.6	(29.4)	(28.8)	(0.3)	(57.6)	(57.9)

A maturity analysis of the contracted cash outflows on lease liabilities is provided in note 19.

FAIR VALUE HIERARCHY

IFRS 7 *Financial Instruments* Disclosure requires companies that carry financial instruments at fair value in the balance sheet to disclose the 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.

	Fair value category	2021		2020	
		Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Held at fair value					
Derivative financial instruments – assets	Level 2	1.0	1.0	0.4	0.4
Derivative financial instruments – liabilities	Level 2	(0.4)	(0.4)	(0.7)	(0.7)
		0.6	0.6	(0.3)	(0.3)

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 2021 the closing exchange rate for the US dollar was 1.37 (2020: 1.29) and the average exchange rate was 1.38 (2020: 1.28).

For the year ended 31 October 2021 a 10 cent strengthening in the US dollar exchange rate would have increased reported net debt by approximately £2.6m (2020: £4.5m).

The following table details the Group's sensitivity to a 10 cent movement in the US dollar rate against sterling with regard 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 (Newwegian 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	
	2021 £m	2020 £m	2021 £m	2020 £m
Continuing operations				
Revenue	(14.2)	(128)	15.8	150
Underlying operating profit	(2.4)	(21)	2.8	26
Interest	—	0.1	—	(0.1)
Underlying profit before tax	(2.4)	(20)	2.8	25

As at 31 October 2021, 87% of the Group's gross debt was at a fixed rate of 1.12% 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 2021.

As the Group mainly has fixed interest rate debt, a change in interest rates would not have a immediate significant impact on the income statement. A change in interest rates of 1% throughout the year would cause the Group's financial expense to change by £0.3m.

23. PROVISIONS

	Legal provisions	Environmental provisions	Disposal provisions	Employee provisions	Other provisions	Total
At 1 November 2020	5.8	3.2	0.3	9.0	0.5	19.0
Transfer between categories			(0.2)	0.3		-
Provision				0.2		0.2
Foreign exchange adjustments		(0.2)		(0.3)		(0.5)
Paid	(0.2)		(0.2)	0.3	(0.3)	(1.2)
At 31 October 2021	5.6	3.0	—	8.9	—	17.5

These provisions are classified in the balance sheet as follows:

	2021 £m	2020 £m
Included in current liabilities	2.6	3.3
Included in non-current liabilities	14.9	15.7
	17.5	19.0

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 outflow, independent on the outcome of court proceedings. 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 £1.2m and £6.8m. There are uncertainties regarding the timing of cash outflows, dependent on the outcome of regulatory proceedings.

The disposal provision relates to estimated liabilities faced by the Group in respect of the disposal of its European Munition's businesses in 2014 and its commodity and emergency businesses in Derby and Florida in 2019 and 2020 respectively, under the terms of the respective sale agreements. The range of possible outcomes is between £m and £28.2m and the risk of economic outflow relating to these relates with the passage of time. These are expected to be utilised over the next five years.

Provisions are subject to a certainty 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 assessment. 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:

	Accumulated tax credits £m	Deferred tax liabilities £m	U.S. tax loss deductions £m	Tax costs £m	Accumulated tax credits £m	Other £m	Total £m
At 1 November 2019	(12)	(19)	-	75	(78)	49	(45)
(Change)/credit to income	(12)	(02)		17	(05)	(37)	(39)
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 1 November 2020	(8.6)	(15)		92	(79)	16	(72)
(Change)/credit to income	(3.2)		4.0	(3.3)	1.8	(1.3)	(2.0)
Change to other comprehensive income	0.2	(2.2)	(0.2)	(0.2)	0.2		(2.2)
Recognised on acquisition					(11)		(11)
Transfers	(7.8)			(0.1)		7.9	-
At 31 October 2021	(19.4)	(3.7)	3.8	5.6	(7.0)	8.2	(12.5)
Analysed as:							
Deferred tax assets	14		18	5.6		8.4	18.2
Deferred tax liabilities	(19.8)	(3.7)			(7.0)	(0.2)	(30.7)
At 31 October 2021	(19.4)	(3.7)	3.8	5.6	(7.0)	8.2	(12.5)
Deferred tax assets	0.4			9.2	0.5	5.6	15.7
Deferred tax liabilities	(9.0)	(15)			(8.4)	(4.2)	(22.9)
At 31 October 2020	(8.6)	(15)		9.2	(7.9)	16	(72)

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

24. DEFERRED TAX continued

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 Finance Bill 2021 was published on 11 March 2021 and substantively enacted on 24 May 2021. The bill provides for an increase in the rate of corporation tax from 19% to 25% with effect from 1 April 2023. As a result of this, the deferred tax liability has increased by £2.2m and the deferred tax asset has increased by £0.5m as at 31 October 2021.

At the balance sheet date, the Group had unrecognised deferred tax of £4.5m (2020: £2.1m) on gross tax losses of £45.3m (2020: £11.0m) and unrecognised deferred tax of £16.0m (2020: £24.7m) on gross interest reductions of £177.3m (2020: £108.1m) as a result of US interest limitation regulations, potentially available for offset against future profits in certain circumstances. The Group also had unrecognised deferred tax of £1.2m (2020: £1.2m) on gross capital losses of £5.9m (2020: £5.9m). No deferred tax asset has been recognised in respect of these amounts because of the unpredictability of future taxable qualifying profit streams.

The Group has not recognised any deferred tax liability on temporary differences relating to potentially taxable untaxed earnings of overseas subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and none are expected to reverse in the foreseeable future.

During the year £7.9m (2020: £n) of deferred tax liabilities relating to development costs were reclassified to accelerated tax depreciation via the transfers rule.

25. SHARE CAPITAL

	2021 £m	2020 £m
Issued and fully paid		
283,149,511 (2020: 282,849,930) ordinary shares of £1 each	2.8	2.8

During the year 299,581 ordinary shares (2020: 359,935) were issued for cash to employees under the Group's approved savings related award schemes.

The Company's share capital also includes 52,500 7% cumulative preference shares of £1 each, which are all issued and fully paid up, and are classified for accounting purposes with 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 to vote if called to receive in priority to any other classes of shares, the sum of £1 per share together with any arrears of dividends.

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.

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations and the accumulation of gains or losses from the effective portion of hedges of net investments in foreign operations.

Included within retained earnings is £7.6m (2020: £2.7m) 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 2,242,342 shares during the year (2020: 1,015,104) and 846,369 shares (2020: 116,777) 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 3.2p per ordinary share for the year ended 31 October 2021.

27. OWN SHARES

	2021 £m	2020 £m
At 1 November 2020	2.9	2.8
Transactions:	(2.9)	1.9
At 31 October 2021	—	2.9

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. No ordinary shares (2020: nil) were acquired during the year and 675,592 ordinary shares (2020: 1,113,118) were distributed following the vesting of awards under the PSP. The total number of ordinary shares held in treasury at 31 October 2021 was nil (2020: 675,592). As at 31 October 2020 the shares held had an average cost of 439.0p per share and represented 0.2% 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 £5.7m (2020: £4.0m) in respect of share-based payments during the year, of which £0.4m is included in non-underlying costs.

Details of the four schemes which operated during the year are set out below.

THE CHEMRING GROUP PERFORMANCE SHARE PLAN 2016 (THE "2016 PSP")

Under the 2016 PSP, conditional awards of ordinary shares are made at no cost to employees. Awards typically vest on the third anniversary of the award date.

	2016 PSP Number of conditional shares	
	2021	2020
Outstanding at the beginning of the year	6,185,176	5,924,866
Awarded	1,791,635	2,404,522
Vested	(1,358,817)	(1,113,118)
Lapsed	(399,033)	(1,031,094)
Outstanding at the end of the year	6,218,961	6,185,176
Subject to vesting at the end of the year	—	—

The following awards were outstanding at 31 October 2021:

Award date	Number of shares awarded	Grant date	Final vesting date
22 March 2019	2,374,251	nil	22 March 2022
17 December 2019	2,107,187	nil	17 December 2022
16 December 2020	1,717,543	nil	16 December 2023

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.

The 2016 PSP awards made in the year ended 31 October 2021 had targets based on earnings per share growth and total shareholder return. The awards have been valued using the following modelling inputs:

	Data awarded		
	16 December 2020	17 December 2019	22 March 2019
Share price at valuation	300p	210p	140p
Exercise price	nil	nil	nil
Risk free rate	0.5%	0.5%	0.6%
Expected volatility	29.1%	29.1%	30.0%
Fair value	246.4p	172.5p	98.2p

The weighted average fair value of awards made during the year was 246.4p (2020: 172.5p).

In the year ended 31 October 2021, 1,358,817 awards vested (2020: 1,113,118). The charge recognised in respect of the awards is based on their fair value at the grant date.

THE CHEMRING GROUP 2008 AND 2018 UK SHARESAVE PLAN (THE "UK SHARESAVE PLAN")

Options were granted during the year on 26 July 2021:

	2021		2020	
	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	1,773,742	177.7	1,428,744	152.8
Granted	481,085	240.0	831,613	202.0
Exercised	(299,581)	158.1	(359,935)	141.1
Lapsed	(184,866)	183.0	(126,680)	161.4
Outstanding at the end of the year	1,770,380	197.4	1,773,742	177.7
Subject to exercise at the end of the year	22,243	178.0	40,373	158.0

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

28. SHARE-BASED PAYMENTS continued

THE CHEMRING GROUP 2008 AND 2018 UK SHARESAVE PLAN (THE "UK SHARESAVE PLAN") continued
The following options were outstanding at 31 October 2021:

Grant Award	Number of ordinary shares under award	Exercise price per share Price	Exercise period
27 July 2017	49,863	148.0	1 October 2022-31 March 2023
30 July 2018	22,243	178.0	1 October 2021-31 March 2022
30 July 2018	48,132	172.0	1 October 2023-31 March 2024
29 July 2019	432,190	154.0	1 October 2022-31 March 2023
29 July 2019	76,888	154.0	1 October 2024-31 March 2025
30 July 2020	617,388	202.0	1 October 2023-31 March 2024
30 July 2020	94,448	202.0	1 October 2025-31 March 2026
26 July 2021	405,810	240.0	1 October 2024-31 March 2025
26 July 2021	73,025	240.0	1 October 2026-31 March 2027

The weighted average fair value of options granted in the year was 57.0p (2020: 39.3p). The weighted average fair value of options exercised in the year was 38.6p (2020: 35.0p). The weighted average share price on exercise of the options during the year was 158.1p (2020: 141.1p).

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.

DEFERRED BONUS SHARE AWARDS

Under the deferred bonus share awards, deferred awards of ordinary shares are made at no cost to employees. Awards ordinarily vest on the second or third anniversary of the award date.

	Number of deferred shares	
	2021	2020
Outstanding at the beginning of the year	615,365	245,496
Awarded	351,832	511,947
Vested	(132,919)	(115,177)
Lapsed	(68,107)	(26,301)
Outstanding at the end of the year	766,171	615,365
Subject to vesting at the end of the year	—	—

The following awards were outstanding at 31 October 2021:

Grant Award	Number of ordinary shares under award	Exercise price	Exercise period	Exercise period
16 December 2019	230,795	210p	nil	16 December 2021
16 December 2019	205,576	210p	nil	16 December 2022
15 December 2020	182,300	300p	nil	15 December 2022
15 December 2020	147,500	300p	nil	15 December 2023

The fair value of the deferred bonus share awards is based on the share price on the grant date of the award. The weighted average fair value of awards made during the year was 300p (2020: 210p). The Group has applied a discount to the share-based payments to reflect the expected number of leavers over the life of the awards.

DEFERRED SHARES RELATED TO ACQUISITION

Deferred consideration in relation to the acquisition of the "Cobra Group" of up to £2.0m has been accounted for as equity settled share-based payments under IFRS 2. See note 29 for further detailed disclosure.

The deferred consideration is comprised of two tranches of 326,792 Chemring ordinary shares each valued at £2.0m based on the share price on 2 June 2021 of 307p. The first tranche will vest on the second anniversary of completion, 2 June 2023, and the second tranche will vest on the third anniversary of completion, 2 June 2024, subject to continued employment with Chemring Group PLC.

A total of 653,584 awards were granted during the year ended 31 October 2021 (2020: nil). Nil vested or lapsed in the year (2020: nil) and 653,584 are outstanding at the end of the period. Nil were subject to vesting at the end of the year (2020: nil). The fair value of the deferred share awards is based on the share price on the grant date of the award. The weighted average fair value of awards made during the year was 307p (2020: £nil).

29. ACQUISITION OF SUBSIDIARY

ACQUISITION OF THE CUBICA GROUP

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

The acquisition has been completed for an initial cash consideration of £7.0m, funded from Chemring's existing bank facilities. Further deferred consideration of up to £2.0m is payable in Chemring ordinary shares in two tranches (subject to the former owners remaining employed in the Chemring Group on the second and third anniversary of completion). The operating results and assets and liabilities of the acquired company have been consolidated from 3 June 2021.

The deferred consideration of £2.0m is contingent on continued employment of the former owners. In accordance with IFRS 3, these costs have been treated as post-acquisition expenses and accounted for as equity settled share-based payments under IFRS 2. See note 3 for further details.

Acquisition related costs of £1.6m have been classified as non-recurring costs in the statement of profit or loss in the reporting period ended 31 October 2021.

Since acquisition to 31 October 2021, the Cubica Group contributed revenue of £0.6m and an operating profit of £0.3m to the Group's results. If the acquisition had occurred on 1 November 2020, we estimate that its revenue would have been £1.4m, and operating profit for the year would have been £0.8m. In determining these amounts, we have assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 November 2020.

Details of the consideration transferred are:

	£m
Cash paid	7.0
Total purchase consideration	7.0
Less cash acquired	(1.9)
Net cash outflow	5.1

The provisionally determined fair values of the assets and liabilities of the Cubica Group as at the date of acquisition are as follows:

	Fair value £m
Cash and cash equivalents	1.9
Trade and other receivables	0.4
Trade and other payables	(1.4)
Current tax	(0.5)
Intangible assets - customer relationships	2.1
Intangible assets - technology	2.5
Deferred tax liability	(1.1)
Net identifiable assets	3.9
Less non-controlling interests	—
Add Goodwill	3.1
Net assets acquired	7.0

Goodwill is attributable to the skills and technical talent of the assembled workforce and synergies expected to arise after the Group's acquisition of the new subsidiary. None of the goodwill is expected to be deductible for tax purposes.

The fair value of the trade receivables amounts to £0.3m. The gross amount of trade receivables is £0.3m and it is expected that the full contractual amounts can be collected.

If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

Q6 owns 80% of the issued shares of Vigor AI Limited ("Vigor AI"), which has technology providing state-of-the-art solutions to enable online platforms to detect imagery relating to child sexual exploitation globally. The Group has chosen to measure the non-controlling interests at the proportionate share of the value of net identifiable assets acquired. See page 162 for further detail.

Vigor AI has established a joint venture in the US, Krugnam Technologies PBC, Inc. (a public benefit corporation ("Krugnam")), in conjunction with just Business Management, LLC, a US-based social enterprise firm. Krugnam is leading the sales and deployment of the Vigor AI technology into the global commercial market. See page 162 for further detail.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

30. RETIREMENT BENEFIT OBLIGATIONS

In the UK, the Group operates a defined benefit scheme (the 'Chemring Group Staff Pension Scheme'). In Norway, Chemring Norge operates a defined benefit scheme (the 'Chemring Norge Scheme'). The Group's other UK and overseas pension arrangements are all defined contribution schemes, with a combined cost of £6.0m (2020: £6.1m) 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 2021 has been prepared and updated to 31 October 2021 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 £13.7m at 31 October 2021 (2020: £7.6m).

Under the funding plan agreed with the trustees following the 2021 actuarial valuation, no further deficit recovery payments are required. 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 2024 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 unfairly 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 Norge 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 2021 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 2.5%. The net deficit of the Chemring Norge Scheme was £nil at 31 October 2021 (2020: £nil) and as such is immaterial for further detailed disclosures.

The movement in the net defined benefit assets is as follows:

	Defined benefit obligations		Defined benefit assets		The defined benefit asset	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
At 1 November	(91.3)	(89.1)	98.9	98.7	7.6	9.6
Included in profit or loss						
Administrative expenses	—	—	(0.3)	(0.3)	(0.3)	(0.3)
Net interest cost/gain	(1.5)	(1.7)	1.7	1.9	0.2	0.2
	(1.5)	(1.7)	1.4	1.6	(0.1)	(0.1)
Included in other comprehensive income						
Remeasurement (loss)/gain						
Actuarial (loss)/gain arising from:						
— demographic and financial assumptions	(2.4)	(4.2)	—	—	(2.4)	(4.2)
— experience adjustment	0.9	—	—	—	0.9	—
— return on plan assets (excluding interest income)	—	—	7.7	2.3	7.7	2.3
	(1.5)	(4.2)	7.7	2.3	6.2	(1.9)
Other						
Contributions by the employer	—	—	—	—	—	—
Net benefits paid out	3.4	3.7	(3.4)	(3.7)	—	—
At 31 October	(90.9)	(91.3)	104.6	98.9	13.7	7.6

The Chemring Group Staff Pension Scheme had 884 members at the end of the year (2020: 934). Of these members 57.8% (2020: 57.8%) 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.

The pension schemes' assets are analysed as follows:

	2021 £m	2020 £m	2021 %	2020 %
Equities	18.4	17.9	17.6	18.1
Liberty driven investment	24.7	26.5	23.6	26.8
Dividends at term value	27.3	22.8	26.1	23.1
Multi-asset credit	23.3	20.2	22.3	20.4
Assets held by insurance company	1.5	1.9	1.4	1.9
Cash	9.4	9.6	9.0	9.7
	104.6	98.9	100.0	100.0

The schemes' assets are invested in accordance with the statement of investment principles after taking professional advice from the scheme's investment advisers. The investment strategy is to split the assets into a growth portfolio of index tracking equity funds, real return funds and a matching portfolio of leveraged liability driven pooled funds.

30. RETIREMENT BENEFIT OBLIGATIONS continued

The scheme's liability matching portfolio is invested in leveraged public liability-driven investment ("LD") 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:

	2021 %	2020 %
Discount rate	1.8	1.7
Rate of increase in deferred pensions	2.7	2.6
Rate of increase in pensions in payment (where applicable)	3.2	2.8
Inflation - RPI	3.4	2.9
- CPI	2.7	2.1

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 Healthy pensioner tables with future improvements in line with GMI 2018 and a 1.25% long-term trend rate.

This results in the following life expectancies at age 65:

	2021	2020
Future pensioners - male	88.6	89.0
Future pensioners - female	90.6	90.6
Current pensioners - male	87.7	87.6
Current pensioners - female	89.2	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 £0.8m and a one-year change to the longevity assumption would change the deficit by approximately £3.7m. 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 2022 will be £1.1 (2021: £nil).

31. CASH GENERATED FROM OPERATING ACTIVITIES

	Notes	2021 £m	2020 £m
Operating profit from continuing operations		50.4	46.3
Amortisation of development costs	12	0.6	1.4
Amortisation of intangible assets arising from business combinations	12	6.2	8.9
Amortisation of patents and licences	12	0.1	—
Loss on disposal of non-current assets		0.1	0.3
Depreciation of property, plant and equipment	13	18.2	18.5
Net cash movement of non-underlying items		0.9	(0.5)
Share-based payment expense	28	5.3	4.0
Operating cash flows before movements in working capital		81.8	78.9
Decrease/(increase) in inventories		7.9	(12.2)
Decrease/(increase) in trade and other receivables		0.9	(9.9)
(Decrease)/increase in trade and other payables		(10.3)	25.2
(Decrease)/increase in provisions		(0.3)	0.4
Operating cash flow from continuing underlying operations		80.0	82.4
Discontinued operations			
Operating cash flow from discontinued underlying operations		—	(2.6)
Cash impact of non-underlying items from discontinued operations		(0.4)	(1.3)
Net cash outflow from discontinued operating activities		(0.4)	(3.9)
Net cash inflow from discontinued investing activities		0.4	14.0
Net cash inflow from discontinued operations		—	10.1

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

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

	2021 £m	2020 £m
(Decrease)/increase in cash and cash equivalents	(9.6)	18.4
Decrease in debt and lease financing due to cash flows	29.2	16.8
Decrease in net debt resulting from cash flows	19.6	35.2
Effect of foreign exchange rate changes	2.7	(0.6)
New leases entered into, lease interest and other non-cash movements	(0.1)	(0.4)
Amortisation of debt finance costs	(0.6)	(0.2)
Movement in net debt	21.6	34.0
Acquisition of IIRS 16 Leases	—	(6.5)
Net debt at the beginning of the year	(48.2)	(75.7)
Net debt at the end of the year	(26.6)	(48.2)

33. ANALYSIS OF NET DEBT

	At the beginning of the year 1 January 2021 £m	During the year £m	During the year £m	At the end of the year 31 October 2021 £m
Cash and cash equivalents (including bank overdrafts)	14.7	(9.6)	—	5.4
Debt due after one year	(57.5)	27.6	(0.6)	(28.1)
Lease liabilities	(5.3)	1.6	(0.1)	(3.8)
Preference shares	(0.1)	—	—	(0.1)
	(48.2)	19.6	(0.7)	(26.6)

Accrued interest is included in the carrying amount of interest payable (note 20) measured at amortised cost and therefore is not presented as a separate line item in the above table.

34. CONTINGENT LIABILITIES

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

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 ("CTS") following a self-report made by CTS. The investigation relates to bribery, corruption and money laundering arising from the conduct of business by CHG and CTS 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 (included within "legal provisions"), 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.

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 110 to 120.

Total emoluments for key management personnel charged to the consolidated income statement were:

	2021 £m	2020 £m
Short-term employee benefits	2.8	2.6
Post-employment benefits	0.2	0.2
Share-based payment benefits	1.7	1.5
Total remuneration of key management personnel	4.7	4.3

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 2021

		2021		2020	
	Note	£m	£m	£m	£m
Non-current assets					
Property, plant and equipment	1	0.2		0.1	
Investments in subsidiaries	2	786.6		634.6	
Amounts owed by subsidiary undertakings	3	69.2		189.2	
Retirement benefit surplus	12	7.2		4.1	
			863.2		828.0
Current assets					
Trade and other receivables	3	5.1		12.6	
Cash and cash equivalents		—		36.7	
			5.1		49.3
Total assets			868.3		877.3
Current liabilities					
Trade and other payables	4	(11.1)		(17.3)	
			(11.1)		(17.3)
Non-current liabilities					
Borrowings	5	(42.5)		(57.5)	
Trade and other payables	4	—		(1.1)	
Provisions	7	(7.1)		(6.7)	
Deferred tax	11	(0.9)		(0.8)	
Preference shares	8	(0.1)		(0.1)	
			(50.6)		(66.2)
Total liabilities			(61.7)		(83.5)
Net assets			806.6		793.8
Equity					
Share capital	9	2.8		2.8	
Share premium account		307.1		306.7	
Special capital reserve		12.9		12.9	
Retained earnings		483.8		474.3	
			806.6		796.7
Own shares	10	—		(2.9)	
Total equity			806.6		793.8

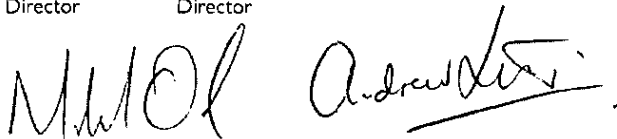
PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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 2021 of £24.6m (2020: £137.6m).

These financial statements of Chemring Group PLC (registered number 86662) were approved and authorised for issue by the Board of directors on 14 December 2021.

Signed on behalf of the Board

Michael Ord **Andrew Lewis**
Director Director



PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 October 2021

	2021 £m	2020 £m
Profit after tax attributable to equity holders of the parent as reported	24.6	137.6
Items that will not be reclassified subsequently to profit and loss		
Actuarial gains/(losses) on pension scheme, net of deferred tax	2.1	(0.8)
Total comprehensive income attributable to the equity holders of the parent	26.7	136.8

STRATEGIC REPORT

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 October 2021

	Share capital £m	Share premium account £m	Special capital reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2020	2.8	306.7	12.9	474.3	(2.9)	793.8
Profit after tax				24.6		24.6
Other comprehensive income				2.1		2.1
Total comprehensive income				26.7		26.7
Ordinary shares issued		0.4				0.4
Share-based payments (net of settlements)				4.7		4.7
Dividends paid				(11.9)		(11.9)
Purchase of shares by employee share ownership plan trust				(7.1)		(7.1)
Transactions in own shares				(2.9)	2.9	
At 31 October 2021	2.8	307.1	12.9	483.8	—	806.6
	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
Share-based payments (net of settlements)				3.1		3.1
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

GOVERNANCE

FINANCIAL STATEMENTS

The auditor's remuneration for audit and other services is disclosed in note 4 to the Group financial statements.

A final dividend of 3.2p per ordinary share has been proposed. See note 9 to the Group financial statements.

As at 31 October 2021 the Company had distributable reserves of £483.8m (2020: £474.3m). 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 2021 or 31 October 2020.

2. INVESTMENTS IN SUBSIDIARIES

	Shares in subsidiary undertakings £m
Cost	
At 1 November 2019 and 31 October 2020	699.1
Additions	152.0
At 31 October 2021	851.1
Impairment	
At 1 November 2019 and 31 October 2020	(64.5)
Impairment	
At 31 October 2021	(64.5)
Carrying amount	
At 31 October 2021	786.6
At 31 October 2020	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.

During the year ended 31 October 2021, Chemring Group PLC acquired the Cubica Group for a cost of investment of £70m. See note 29 of the Group financial statements for further details. In addition, the Company increased its investments in Chemring Countermeasures UK Limited and CHC Overseas Limited by £30.0m and £115.0m respectively.

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.

Stress testing was performed on the forecasts to consider the impact of reasonably possible worst case scenarios over the forecast period, including a 1% reduction in long term growth rate, a 10% fall in the forecast cash flows or a \$0.10 weakening in the GBP to USD exchange rate. Even under any of these circumstances, no investment would require an impairment. A 1% increase in discount rate would result in an impairment of £19.1m in CHC Overseas Limited being required.

There are no other reasonable possible changes in assumptions that would require an impairment of investments in subsidiaries.

Details of the Group undertakings at 31 October 2021 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.

3. TRADE AND OTHER RECEIVABLES

	2021 £m	2020 £m
Within current assets		
Amounts owed by subsidiary undertakings	3.4	11.6
Derivative financial instruments (note 22 to the Group financial statements)	1.0	0.4
Prepayments and accrued income	0.7	0.6
	5.1	12.6
Within non-current assets		
Amounts owed by subsidiary undertakings	69.2	189.2
	69.2	189.2

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 8.5%. No interest is charged on trade and other receivables from the date of invoice to payment. Of the £69.2m owed by subsidiary undertakings classified within non-current assets, £62.7m is contractually due in two to five years. The remainder is contractually due in less than two years.

4. TRADE AND OTHER PAYABLES

	2021 £m	2020 £m
Within current liabilities		
Derivative financial instruments (note 12 to the Group financial statements)	0.4	0.7
Trade payables	0.2	0.2
Amounts owed to subsidiary undertakings	2.0	3.4
Other payables	8.2	9.0
Other tax and social security	0.3	0.2
Accruals and deferred income	—	1.8
	11.1	17.3
Within non-current liabilities		
Amounts owed to subsidiary undertakings	—	1.1
	—	1.1

Other payables of £8.2m (2020: £9.0m) includes payroll related creditors of £3.7m (2020: £4.2m).

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.

5. BORROWINGS

	2021 £m	2020 £m
Borrowings due after more than one year		
Bank borrowings – US dollar denominated	28.0	57.5
Bank borrowings – sterling denominated	14.5	—
Total borrowings	42.5	57.5

An analysis of borrowings by maturity is as follows:

	2021 £m	2020 £m
Borrowings falling due		
less than one year	—	—
within one to two years	—	57.5
within two to five years	42.5	—
	42.5	57.5

The interest incurred on the above borrowings is detailed within notes 7 and 18 to the Group financial statements. Sterling denominated borrowings relate to stand-alone Company bank overdraft which carries interest at 1.2%.

6. LEASES

The interest expense on lease liabilities is £nil (2020: £nil). In total, payments of £0.1m (2020: £0.1m) were made under leasing contracts, of which £0.1m (2020: £0.1m) was made to repay the principal portion of the lease. The total lease liability at 31 October 2021 was £nil (2020: less than £0.1m).

7. PROVISIONS

	2021 £m	2020 £m
At 1 November 2020	6.7	6.7
Provided	1.0	—
Paid	(0.3)	(0.3)
Foreign exchange movements	(0.3)	(0.3)
At 31 October 2021	7.1	6.1

It is not possible to estimate more accurately the expected timing of any resulting outflows of economic benefits. Total provisions include legal provisions, which represent the estimated legal costs relating to ongoing investigations, and disposal provisions, which relate to estimated liabilities faced by the Company in respect of the disposal of its commoditised energetics businesses under the terms of their respective sale agreements. See note 23 to the Group financial statements for further details.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS continued

8. PREFERENCE SHARES

	2021 £m	2020 £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.

9. SHARE CAPITAL

	2021 £m	2020 £m
Issued, allotted and fully paid		
283,149,511 (2020: 282,849,930) ordinary shares of 1p each	2.8	2.8

During the year, 299,581 ordinary shares (2020: 359,935) 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.

10. OWN SHARES

	2021 £m	2020 £m
At the beginning of the year	2.9	1.8
Transactions	(2.9)	(4.9)
At the end of the year	—	2.9

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 (see note 28 to the Group financial statements). Nil ordinary shares (2020: nil) were acquired during the year and 675,592 ordinary shares (2020: 1,113,118) were distributed following the vesting of awards under the PSP. The total number of ordinary shares held in treasury at 31 October 2021 was nil (2020: 675,592). As at 31 October 2020 the shares held had an average cost of 439.0p per share and represented 0.2% of the total issued and fully paid ordinary share capital.

11. DEFERRED TAX

	2021 £m	2020 £m
At the beginning of the year	(0.8)	(0.4)
Credit/(charge) to income statement	1.0	(0.5)
(Charge)/credit to other comprehensive income	(1.1)	0.1
Deferred tax liability at the end of the year	(0.9)	(0.8)
The amount provided represents:		
Other timing differences	(0.9)	(0.8)

At the balance sheet date, the Company had unrecognised tax losses of £nil (2020: £nil) potentially available for offset against future profits in certain circumstances.

12. 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 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
Contributions	—
Other finance costs	(0.1)
Actuarial movements	3.2
At 31 October 2021, retirement benefit surplus	7.2

Further details are set out in note 30 to the Group financial statements.

13. STAFF COSTS

	2021 Number	2020 Number
Average monthly number of total employees (including executive directors)	31	29
The costs incurred in respect of these employees (including share based payments) were:		
	2021 £m	2020 £m
Wages and salaries	6.5	6.7
Social security costs	0.9	0.6
Other pension costs	0.6	0.5
Share based payment	2.9	2.3
	10.9	10.1

Disclosures in respect of directors' emoluments can be found in the directors' remuneration report on pages 94 to 120.

FIVE-YEAR RECORD

For the year ended 31 October 2021

	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Revenue	393.3	402.5	335.2	297.4	307.1
Underlying operating profit	57.5	54.7	44.0	31.0	51.5
Non-underlying items	(7.1)	(8.4)	(12.7)	(16.9)	(26.9)
Operating profit/(loss)	50.4	46.3	31.3	(15.9)	4.6
Finance expense	(1.6)	(3.0)	(4.6)	(6.1)	(11.3)
Profit/(loss) before taxation	48.8	43.3	26.7	(22.0)	(6.7)
Taxation	(7.3)	(5.6)	(3.6)	(18.8)	2.4
Profit/(loss) for the year from continuing operations	41.5	37.7	23.1	(40.8)	(4.3)
(Loss)/profit after tax from discontinued operations	—	—	(1.2)	(65.0)	10.9
Profit/(loss) attributable to equity shareholders	41.5	37.7	21.9	(105.8)	6.6
Intangible assets and property, plant and equipment	351.5	348.9	329.9	318.9	376.2
Working capital	84.4	85.1	90.5	83.7	89.0
Provisions	(17.5)	(19.0)	(17.2)	(20.7)	(15.3)
Retainable profit surplus/(deficit)	13.7	7.6	9.6	7.5	(0.6)
Net current and deferred tax liability/(assets)	(24.5)	(16.3)	(8.5)	(11.1)	4.2
Net assets	(26.6)	(48.2)	(15.7)	(87.8)	(80.0)
Other	(28.2)	(28.5)	(22.8)	(7.3)	27.7
Net assets employed	352.8	329.6	305.8	294.2	401.2
Financed by:					
Ordinary share capital	2.8	2.8	2.8	2.8	2.8
Reserves attributable to equity shareholders	350.0	326.8	303.0	291.4	398.4
Total equity	352.8	329.6	305.8	294.2	401.2
Basic underlying earnings per ordinary share (continuing operations)	16.9p	15.1p	11.2p	6.9p	5.9p
Diluted underlying earnings per ordinary share (continuing operations)	16.5p	14.8p	11.0p	6.7p	5.8p
Basic earnings/(loss) per ordinary share (continuing operations)	14.7p	12.3p	8.2p	(14.6)p	(1.5)p
Diluted earnings/(loss) per ordinary share (continuing operations)	14.4p	12.0p	8.1p	(14.6)p	(1.5)p
Dividend per share	4.8p	3.9p	3.6p	3.3p	3.0p

As presented in the consolidated financial statements for that year

1. Comparative figures in the year 2017 have been adjusted to reflect the transfer of the commoditised energetics businesses to discontinued operations

ACCOUNTING POLICIES

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

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 121 to 123. 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 these 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 details are contained in the statement on going concern on page 72.

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) There were no IFRS Interpretations Committee ("IFRIC") interpretations, amendments to existing standards and new standards adopted in the year ended 31 October 2021 that have materially impacted the reported results or the financial position.
- ii) The following IFRIC interpretations, amendments to existing standards and new standards were adopted in the year ended 31 October 2021 but have not materially impacted the reported results or the financial position:
 - > Amendments to IFRS 3 *Business Combinations*,
 - > Amendments to IFRS 7, 9 and IAS 39 *Financial Instruments*,
 - > Amendments to IFRS 16 *Leases*,
 - > Amendments to IAS 1 *Presentation of Financial Statements*,
 - > Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, and
 - > Amendments to IAS 16 *Property, Plant and Equipment – Protocols before Intended Use (early adopted)*.
- 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 2021

- > IFRS 17 *Insurance Contracts*

EFFECTIVE FOR PERIODS BEGINNING ON OR AFTER 1 JANUARY 2022

- > Amendments to IFRS 3 *Business Combinations*,
- > 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 and IFRS Practice Statement 2*,
- > Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*,
- > Amendments to IAS 12 *Income Taxes*,
- > Amendments to IAS 16 *Property, Plant and Equipment*, and
- > IFRS 17 *Insurance Contracts*

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

3. GROUP ACCOUNTING POLICIES

BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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.

In accordance with IFRS 5, the 2020 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. Subsidiaries are entities controlled by the Group. The Group "controls" an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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.

ACCOUNTING POLICIES continued

3. GROUP ACCOUNTING POLICIES continued

BASIS OF CONSOLIDATION continued

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.

Non-controlling interest

The Group recognises non-controlling interest in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For non-controlling interests that the Group holds, the Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

Q6 Holdings Limited, a wholly owned subsidiary of Chemring Group PLC, owns 80% of the issued shares of Vigor AI Limited. Disclosure of the minority interest on the face of the primary statements has not been included as this is considered immaterial to the Group. As at 31 October 2021, profit, total comprehensive income and equity attributable to minority interests were less than £0.1m.

Joint venture

Vigor AI Limited has established a joint venture in the US, Krungam Technologies PBC, Inc. in which it holds 50% of the voting rights. The joint venture is accounted for using the equity method. It has been initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence or joint control ceases.

The initial cost of investment and value as at 31 October 2021 was less than £0.1m. The Group's share of profit of the equity accounted investee net of tax for the period was less than £0.1m. All amounts were considered immaterial to the Group financial statements and therefore no separate disclosure has been provided in the primary statements.

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 provides a service towards the development of a technology for a customer resulting in revenue. In certain instances, Chemring partly funds 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 small 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 so 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.

3. GROUP ACCOUNTING POLICIES continued**REVENUE RECOGNITION** continued**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.

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 AS 17 *Income Taxes* and AS 19 (Revised) *Employee Benefits* respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquired 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 are 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 profits 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 (2020: ten 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 (2020: seven years).

ACCOUNTING POLICIES continued

3. GROUP ACCOUNTING POLICIES continued

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 the net cost or valuation to the 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.

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.

3. GROUP ACCOUNTING POLICIES continued

FOREIGN CURRENCIES continued

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 nearly 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.

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 Group does not apply hedge accounting for derivative financial instruments, with changes in the fair value of derivatives being recognised in the income statement immediately.

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.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss.

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 (ie, 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.

ACCOUNTING POLICIES continued

3. GROUP ACCOUNTING POLICIES continued 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.

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 considers non-underlying items to be:

- an 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 need to be separately disclosed to properly understand 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 defined benefit scheme including employees of other Group companies (a Group plan). 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

4. CHEMRING GROUP PLC – PARENT COMPANY ACCOUNTING POLICIES continued

FRS 101 REDUCED DISCLOSURE FRAMEWORK continued

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 other non-significant areas that include a degree 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 1). 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 £786.6m at 31 October 2021.

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.

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.

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 and 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 2021 are set out in note 23.

OTHER NON-SIGNIFICANT AREAS THAT INCLUDE A DEGREE OF ESTIMATION UNCERTAINTY OR JUDGEMENTS

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 1). 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 £108.7m at 31 October 2021.

Capitalised development costs impairment

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 £30.0m at 31 October 2021. Included in this balance are individually material balances relating to Joint Biological Tactical Detection System (£8.1m), Next Generation Chemical Detector (£13.0m) and Perceive (£4.7m).

ACCOUNTING POLICIES continued

5. ACCOUNTING JUDGEMENTS AND SOURCES OF

ESTIMATION UNCERTAINTY continued

OTHER NON-SIGNIFICANT AREAS THAT INCLUDE A DEGREE OF ESTIMATION UNCERTAINTY OR JUDGEMENTS continued

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 2021, there was a provision of £5.2m 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 £n and £5.2m.

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, or to the extent that the existing taxable temporary differences, of an appropriate type, reverse in an appropriate period 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.

Defined benefit pension scheme

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.

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 2021 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 the related notes, including the accounting policies in notes 1-5.

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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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 to the extent applicable.

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 four financial years ended 31 October 2021. 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	£2.75m (2020: £2.5m)
	4.9% (2020: 4.8%) of normalised profit before tax, normalised to exclude this year's non-underlying items
Coverage	85% (2020: 89%) of total profits and losses that made up Group profit before tax including continuing operations only
Financial statements for year ended 31 October 2020	
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 (unchanged from 2020) in decreasing order of audit significance. In arriving at our audit opinion above, together with our key audit procedures to address those matters and our findings from those procedures, in order that the company's members, as a body, may better understand the process by which we arrived at our audit opinion. These matters were addressed, and our findings 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.

	The risk	Our response
REVENUE RECOGNITION FROM PROVISION OF SERVICES OVER TIME (£2.1m within £10m accrued income, in relation to open fixed price contracts; 2020: £2.5m within £8.0m accrued income) Refer to page 90 (Audit Committee Report), page 163 (accounting policy) and page 140 (financial disclosures).	'OVER TIME' REVENUE ESTIMATE There is a risk over the accuracy of services revenue due to pressures on the Group to increase profitability and other key metrics increasing the risk of fraudulent premature revenue recognition. A number of service contracts (5% of total group revenue from continuing operations) 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 materiality. We continue to perform work over point in time recognition, but no longer consider this to be part of the key audit matter because of the low level of estimation or judgement involved in those transactions.	We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described below. <i>Corroborating terms.</i> We assessed the Group's assumptions behind the timing of revenue recognition based on percentage of completion of the revenue contracts, and reviewed a sample of 'over time' service contracts to the proportion of revenue recognised relative to the stage of completion. — <i>Independent re-performance.</i> We recalculated progress towards satisfaction of performance obligations to assess the expected revenue and profit recognition and compared this to the amounts recorded. — <i>Tests of detail.</i> For a risk based sample of 'over time' service contracts we assessed the cost allocation and further cost forecasts to assess stage of completion and compared this to other indicators such as customer certified milestones and settled invoices. <i>Contract documentation.</i> We inspected the contract documents and challenged the identification of performance obligations, contract clauses and the method of revenue recognition in accordance with IFRS 15. <i>Challenge key judgements.</i> We obtained the latest forecasts of contract revenue and costs, and challenged the estimates in respect of contract forecasts, costs to complete and the recoverability of contract assets via agreement to third party certifications, confirmations and other documentation on challenge of senior operational and financial management, and with reference to our own expertise. <i>Journals.</i> We considered a high risk criteria sample for the journals which looked at credits to revenue from services over time with unusual debits and any top side journals related to this. — <i>Historical comparisons.</i> We made 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, and <i>Forecasting accuracy.</i> We performed 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. We considered contract progress after the reporting date to determine if the outcome result had been accurately forecast. OUR FINDINGS We found the resulting estimates to be mildly cautious (2020: balanced).

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 (Investments in subsidiaries: £786.6m; 2020: £634.6m) Refer to page 90 (Audit Committee report), page 167 (accounting policy) and page 136 (financial disclosures).	SUBJECTIVE ESTIMATE A history of business combinations has resulted in significant parent company investments in subsidiaries. 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 involves 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 concluded that reasonably possible changes to the recoverable amount would not be expected to result in a material impairment.	We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described below. Extrapolating past forecasting accuracy We assessed three years' historical accuracy of the cash flows forecasting and building comparable variations in forecasting accuracy into our own models that were built to re-perform the valuation. Our sector experience We evaluated assumptions used in particular those relating to operating cash flow forecasts when compared with our business understanding. Benchmarking assumptions We benchmarked 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. Sensitivity analysis We performed sensitivity analysis by reviewing the impact of reasonable downward changes to the assumptions noted above. Comparing valuations We compared 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 Assessing transparency We assessed whether the parent company's disclosures about the estimation uncertainty related to the impairment assessment reflect the risks inherent in the recoverability of the parent company's investments in subsidiaries. OUR FINDINGS — We found the assessment of the resulting estimate to be balanced (2020: acceptably).

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 £2.75m (2020: £2.5m), determined with reference to a benchmark of normalised Group profit before tax, normalised to exclude this year's non-underlying items as disclosed in note 3, of which it represents 4.9% (2020: 4.8%).

Materiality for the parent company financial statements as a whole was set at £1.0m (2020: £1.4m), determined with reference to a benchmark of parent company total assets, of which it represents 0.1% (2020: 0.2%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 74.5% (2020: 75.2%) of materiality for the financial statements as a whole, which equates to £2.05m (2020: £1.88m) for the Group and £0.75m (2020: £1.05m) for the parent company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £135k (2020: £175k), in addition to other identified misstatements that warranted reporting on qualitative grounds. We agreed on a higher threshold of £270k for matters only related to reclassification.

Of the Group's thirteen reporting components, we subjected nine (2020: nine) to full scope audits for Group purposes, and one (2020: one) to specified risk-focused audit procedures. The latter was not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed. We conducted reviews of financial information (including enquiry) at a further one (2020: one) non-significant component 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 8% (2020: 9%) of total Group revenue, 15% (2020: 9%) of total profits and losses that made up Group profit before tax and 11% (2020: 5%) of total Group assets were represented by three components. None of these three components individually represented more than 8% (2020: 9%) of any of total Group revenue, total profits and losses that made up Group profit before tax or total Group assets. For these residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

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 the component materialities, which ranged from £0.05m to £1.7m, having regard to the mix of size and risk profile of the Group across the components. The work on 8 of the 13 (2020: 8 of the 11) 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 normalised Group profit before tax.

We performed inspection of the work covering key audit matters at 11 component audit teams performing audits for Group reporting purposes.

NORMALISED PROFIT BEFORE TAX £55.9m (2020: £51.7m)

GROUP MATERIALITY £2.75m (2020: £2.5m)

£2.75m

Whole financial statements materiality (2020: £2.5m)

£2.05m

Whole financial statements performance materiality (2020: £1.88m)

£1.7m

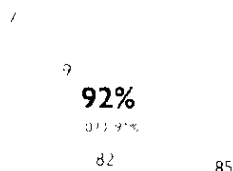
Range of materiality at 10 components (£50k to £1.7m) (2020: £450k to £1.4m)

Normalised profit before tax
Group materiality

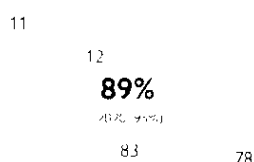
£135k

Misstatements reported to the Audit Committee (2020: £175k)

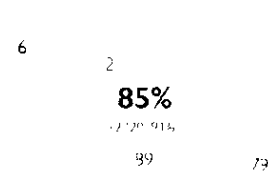
GROUP REVENUE



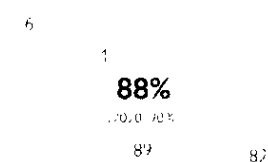
GROUP TOTAL ASSETS



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 2021
Specified risk-focused audit procedures 2021
Residual components 2021
Full scope for Group audit purposes 2020
Specified risk-focused audit procedures 2020
Residual components 2020

3. OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT continued

Video conference 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. If any further work required by the Group team was then performed by the component auditors.

4. GOING CONCERN

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company'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).

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group'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, EBITDA and net debt, and therefore covenants over this period were:

- delays to significant revenue contracts
- manufacturing facilities safety incidents
- the potential outcome of the provisions and contingent liabilities related to regulatory investigations.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

We assessed completeness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified and concur with the directors' assessment that there is not a material uncertainty related to events or conditions that individually or collectively may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the directors' statement in 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 the going concern period, and we found the going concern disclosure on page 77 to be acceptable; and
- the related statement under the Listing Rules set out on page 123 is materially consistent with the financial statements and our audit knowledge.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. FRAUD AND BREACHES OF LAWS AND REGULATIONS – ABILITY TO DETECT

IDENTIFYING AND RESPONDING TO RISKS OF MATERIAL MISSTATEMENT DUE TO FRAUD

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Encouraging of directors' and internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board, Audit Committee, Executive Committee, Remuneration Committee and Risk Committee meeting minutes;
- Considering remuneration incentive schemes and performance targets for management and directors, including the EPS target for management remuneration;
- Using analytical procedures to identify any unusual or unexpected relationships;
- Using our own forensic specialists to assist us in identifying fraud risks based on discussions of the circumstances of the Group and Company.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group level.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that the provision of services over time is recorded in the wrong period and the risk that Group and component management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as those used in revenue recognition, certain provisions and pension assumptions.

We did not identify any additional fraud risks.

Further detail in respect of revenue recognition is set out in the key audit matter disclosure in section 2 of this report.

We performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts;
- Assessing significant accounting estimates for bias.

We assessed the disclosures in note 34 related to the ongoing Serious Fraud Office investigation conformed to our knowledge based on discussion with the Company's legal advisors.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHEMRING GROUP PLC continued

5. FRAUD AND BREACHES OF LAWS AND REGULATIONS – ABILITY TO DETECT continued

IDENTIFYING AND RESPONDING TO RISKS OF MATERIAL MISSTATEMENT DUE TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

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, through discussion with the directors (as required by auditing standards), from inspection of the Group's regulatory and legal correspondence and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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 the Group level and a request for component auditors to report to the Group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group.

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, taxation legislation and pension 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. We identified the following areas as those most likely to have such an effect: health and safety, environmental protection legislation, and anti-bribery and corruption, recognising the regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of statutory regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

For the Serious Fraud Office investigation matter discussed in note 31, and for the Health and Safety executive matter discussed in note 34, we assessed disclosures against our understanding from legal correspondence, including discussions held with the lawyers as well as inspection of relevant documentation.

CONTEXT OF THE ABILITY OF THE AUDIT TO DETECT FRAUD OR BREACHES OF LAW OR REGULATION

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION IN THE ANNUAL REPORT

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

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement 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 how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the 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 the assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability statement set out on page 72 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

6. WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION IN THE ANNUAL REPORT continued

DISCLOSURES OF EMERGING AND PRINCIPAL RISKS AND LONGER-TERM VIABILITY continued

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.

CORPORATE GOVERNANCE DISCLOSURES

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- 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;
- the section of the annual report describing the work of the Audit Committee including the significant issues that the Audit Committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the corporate governance report relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

7. 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.

8. RESPECTIVE RESPONSIBILITIES

DIRECTORS' RESPONSIBILITIES

As explained more fully in their statement set out on page 123, 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 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 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 full description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. 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 and the terms of our engagement by the company. 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 the further matters we are required to state to them in accordance with the terms agreed with the company, 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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14 December 2021

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FIND OUT MORE ONLINE

For more information about Chemring Group PLC, please visit www.chemring.com 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 2021 annual report and accounts and the notice for the Annual General Meeting can also be viewed and downloaded at: www.chemring.com/investors

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