

Registered number: 218229

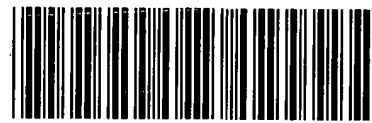
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**CHEMRING COUNTERMEASURES LIMITED**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 OCTOBER 2021**

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**CHEMRING COUNTERMEASURES LIMITED**

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**COMPANY INFORMATION**

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<b>Directors</b>	S L Ellard A Hogben A G Lewis M Ord M G Randell
<b>Company secretary</b>	S L Ellard
<b>Registered number</b>	218229
<b>Registered office</b>	Roke Manor Old Salisbury Lane Romsey Hampshire SO51 0ZN
<b>Independent auditor</b>	KPMG LLP Gateway House Tollgate Eastleigh United Kingdom SO53 3TG

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**CHEMRING COUNTERMEASURES LIMITED**

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## CHEMRING COUNTERMEASURES LIMITED

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### STRATEGIC REPORT FOR THE YEAR ENDED 31 OCTOBER 2021

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#### Business review

As shown in the company's income statement on page 12, during the year the company's sales decreased by 11% compared to the prior year due primarily to the completion of one large non-recurring revenue stream in 2020. Operating profit for the year increased to £12,007,000 (2020: £287,000 loss), as a result of improved operational execution and the receipt of insurance proceeds.

The company's key measurement of the effectiveness of its operations is return on sales, which is based on operating profit as a proportion of revenue. The company achieved a return on sales of 24% (2020: negative return of 1%).

#### Principal risks and uncertainties

The company is a wholly owned subsidiary of Chemring Group PLC ("the Group"). The Group Board is responsible for the Group's systems of internal control and its risk management systems. The Group Board has constituted a Risk Management Committee, which meets quarterly, to review the key risks associated with the business, including the most significant health and safety risks identified at each site, and the risk control procedures implemented. Brief details of the principal risks and uncertainties currently facing the company are set out below. Further details can be found in the consolidated financial statements of Chemring Group PLC.

#### Health and safety risks

Responsibility for the delivery of world class safety standards is an integral part of the operational management accountability. The company's management are therefore expected to operate with health and safety as a top priority and to ensure that the strength of the company's safety culture and the quality of its protective systems deliver operations where employees and visitors feel and are absolutely safe. Following the tragic incident that occurred in August 2018 the Group introduced a new three-year safety strategy. This has progressed well, with all key milestones of the plan having been met. Revised HSE standards and guidelines have been implemented, as have our Fundamental Safety Rules which focus on high-risk behaviour.

#### Environmental laws and regulations

The Group's operations and ownership or use of property are subject to a number of national and local environmental laws and regulations, including those relating to discharge of hazardous materials, management of contaminated sites, and the restoration of damage to the environment. The company is certified to the environmental management system ISO4001, which requires the setting of environmental goals and objectives focused on local aspects and impacts.

#### Future developments and possible defence budget cuts

Defence spending levels depend on a complex mix of political considerations, budgetary constraints and the requirement of the armed forces to address specific threats and perform certain missions. As such, defence spending may be subject to significant fluctuation from year to year. We have refocused our business development and marketing activities in our key home markets in the niche segments in which we operate. The future prospects for the company are therefore good. The company continues to closely monitor the position in all the key markets in which it operates.

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## CHEMRING COUNTERMEASURES LIMITED

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### STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 OCTOBER 2021

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#### **Timing and value of orders**

The majority of the company's contracts are of a relatively short duration and, with the exception of framework contracts with key customers, do not usually cover multi-year requirements. This means that an unmitigated delay in the receipt of key orders could affect earnings. Maximising order intake is therefore a key priority for the company.

#### **Political risks**

The company is active in several countries that are suffering from political, social and economic instability. The company's business in these countries may be adversely affected in a way that is material to its financial position and the results of its operations. The company strives to maintain relationships at all levels within the political structure of certain key countries, in order to ensure that it is aware of and can react to proposed changes, if and when they occur.

#### **Manufacturing risks**

The company's manufacturing activities may be exposed to business continuity risks, arising from plant failures, supplier interruptions or quality issues. These could result in financial loss, reputational damage and loss of future business. The company has prepared business continuity plans. The company also insures certain business interruption risks where appropriate.

#### **Management resource**

The company requires competent management to lead it through the next stage of its development. In challenging markets and difficult times, there is a need to retain and incentivise senior managers and key employees in order to ensure that the operations do not suffer from loss of management expertise and knowledge.

#### **Technology risks**

The Group's approach to innovation and continued research and development activity ensures that the company is continually adding new products to the range, through a focused product development and technology investment approach.

#### **Product liability and other customer claims**

The company may be subject to product liability and other claims by customers or third parties. Substantial claims could harm the company's business and its financial position. Product liability claims from third parties for damage to property or persons are generally covered by the company's insurance policies, subject to applicable insurance conditions.

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## CHEMRING COUNTERMEASURES LIMITED

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### STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 OCTOBER 2021

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#### Compliance and corruption risks

The company operates under the Group's Code of Conduct, which stipulates the standard of acceptable business conduct required by employees and third parties acting on the company's behalf. The company has also adopted the Group's Bribery Act Compliance Manual, incorporating anti-bribery policies and procedures. A significant proportion of the company's management have received training in relation to ethics and anti-corruption.

#### COVID-19

The company's operations were designated as critical to the defence and national security industrial base. The company has therefore remained open throughout the pandemic, and will continue to make every effort to maintain delivery of essential services and manufacturing production in support of its customers.

One significant risk to operations was associated with the ability of customers to test and accept goods. The company has worked closely with customer representatives to deliver timely testing and acceptance of products, and this did not have a significant impact on financial performance during the year.

#### Financial risks

The company undertakes certain transactions denominated in foreign currencies, giving rise to exposures to exchange rate fluctuations.

The company's policy is to hedge transactional currency exposures through the use of forward foreign exchange contracts. The measurement and control of this risk is monitored on a Group-wide basis.

#### Financial key performance indicators

The company's key measurement of the effectiveness of its operations is return on sales, which is based on operating profit as a proportion of revenue. The company achieved a return on sales of 24% (2020: negative return of 1%). See the business review for further analysis.

The company uses one principal financial key performance indicator (KPI) to measure its performance. The principal KPI used is operating profit as given in the income statement.

#### Research and development activities

The company's research and development capabilities continue to be strengthened, further enhancing specialised skills in infra-red countermeasures design and the value engineering of existing products. Total research and development costs charged to the income statement in the year were £1,223,000 (2020: £698,000). £nil (2020: £394,000) of development costs have been capitalised in the year. Customer funded research and development costs in the year amounted to £2,217,000 (2020: £1,338,000). The directors regard investment in this area as a pre-requisite for success in the medium to long-term future.

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## CHEMRING COUNTERMEASURES LIMITED

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### STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 OCTOBER 2021

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#### Employees

The Group pursues a policy of employee communication through meetings and in-house magazines by which employees are made aware of the progress of the Group and the companies in which they work, and are informed on matters affecting them as employees.

Certain employees may participate in equity settled share-based compensation schemes operated by the parent company, Chemring Group PLC.

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

#### Directors' statement of compliance with duty to promote the success of the company

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

Further information on how the company has had regard to section 172 matters during the year can also be found in the following sections of the strategic report:

- Consequences of any decision in the long term – Future developments and possible defence budget cuts (page 1);
- Interests of employees – Employees (page 4);
- Impact of operations on the community and the environment – Environmental laws and regulations (page 1);
- Maintaining high standards of business conduct - Compliance and corruption risks (page 3).

Information on business relationships with suppliers, customers and others and acting fairly between members, as well as further details on how the Chemring Group PLC Board operates and reflects all stakeholder views in its decision making, are set out within Chemring Group PLC's 2021 annual report and accounts which can be found at [www.chemring.com](http://www.chemring.com).

This report was approved by the Board of Directors on 28 January 2022.

Signed on behalf of the Board.



S L Ellard  
Company Secretary

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## CHEMRING COUNTERMEASURES LIMITED

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### DIRECTORS' REPORT FOR THE YEAR ENDED 31 OCTOBER 2021

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The directors present their annual report and the audited financial statements for the year ended 31 October 2021.

#### Principal activities

The principal activities of the company are the design, manufacture and marketing of passive airborne and naval countermeasures. There have not been any significant changes in the company's principal activities in the year under review. The directors are not aware, at the date of this report, of any likely changes in the company's activities in the forthcoming year.

#### Results and dividends

The profit for the year, after taxation, amounted to £9,820,000 (2020: loss £3,718,000).

The directors do not recommend the payment of a dividend (2020: £nil).

#### Directors

The directors who served during the year were:

S L Ellard  
A Hogben  
A G Lewis  
M Ord  
M G Randell

#### Going concern

As part of a regular assessment of the company's financial performance and position, the directors have prepared a detailed bottom-up budget and cashflow forecast for the period through to October 2023, being at least twelve months after the date of approval of the financial statements.

The directors have considered the potential impacts on the forecast prepared of a severe but plausible downside scenario being a significant reduction in revenue without any controllable mitigating actions taken.

As at 31 October 2021 the company has net current assets of £1,823,000 (2020: £24,085,000 liability) and generated a profit for the year of £9,820,000 (2020: £3,718,000 loss).

The directors, having considered the current financial position and forecast including a severe but plausible downside scenario, believe the company is well placed to manage its risks and have assessed that there is a reasonable expectation that adequate financial resources will continue to be available, through funding from its ultimate parent company, Chemring Group PLC, for the foreseeable future. Chemring Group PLC has indicated its intention to continue to make available such funds as are needed by the company for the period of at least twelve months after the date of approval of the financial statements. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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**CHEMRING COUNTERMEASURES LIMITED**

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**DIRECTORS' REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 OCTOBER 2021**

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**Employees**

The company pursues a policy of employee communication through meetings and in-house magazines by which employees are made aware of the progress of the company. Further details can be found in the strategic report on page 4.

**Research and development activities**

The company continues to invest in research and development activities. Further details can be found in the strategic report on page 3.

**Future developments**

The company continues to closely monitor the position in all key markets in which it operates. Further details can be found in the strategic report on page 1.

**Financial risks**

The company undertakes certain transactions denominated in foreign currencies, giving rise to exposures to exchange rate fluctuations. Further details can be found in the strategic report on page 3.

**Disclosure of information to auditor**

Each of the persons who is a director at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be 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**

The auditor, KPMG LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the Board of Directors on *28 January 2022* and signed on its behalf.



**S L Ellard  
Company Secretary**

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**CHEMRING COUNTERMEASURES LIMITED**

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**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE  
DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 OCTOBER 2021**

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The directors are responsible for preparing the strategic report, the directors' report and the audited financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare audited financial statements for each financial year. Under that law the directors have elected to prepare the audited financial statements in accordance with United Kingdom Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice); including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going basis of accounting unless they either intend to liquidate the 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the 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 Company and to prevent and detect fraud and other irregularities.

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHEMRING COUNTERMEASURES LIMITED

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### Opinion

We have audited the financial statements of Chemring Countermeasures Limited ("the company") for the year ended 31 October 2021 which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 October 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### 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 have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that 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 its 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").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

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 company's ability to continue as a going concern for the going concern period.

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 company will continue in operation.

### 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:

- Enquiring of directors, and internal audit and inspection of policy documentation as to the Chemring's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and Chemring's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading company Board minutes.
- Considering remuneration incentive schemes and performance targets for management and directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHEMRING COUNTERMEASURES LIMITED

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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, in particular the risk that 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 pension assumptions. On this audit we do not believe there is a fraud risk related to revenue recognition because there are no complexities or significant areas of estimation or judgement, as such we considered there to be limited opportunities for material fraudulent entries to remain undetected.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included unusual revenue and cash postings.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

*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 company's regulatory and legal correspondence and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company 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 company 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, and certain aspects of company legislation recognising the nature of the company'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 other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

*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.

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHEMRING COUNTERMEASURES LIMITED

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### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report 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 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.

### **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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for 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 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 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 fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorresponsibilities](http://www.frc.org.uk/auditorresponsibilities).

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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHEMRING COUNTERMEASURES LIMITED**

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**The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**Matthew Gillett (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants**

Gateway House  
Tollgate  
Eastleigh  
United Kingdom

SO53 3TG

Date: **28 January 2022**

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CHEMRING COUNTERMEASURES LIMITED

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INCOME STATEMENT  
FOR THE YEAR ENDED 31 OCTOBER 2021

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	Note	2021 £000	2020 £000
Revenue	2	50,914	57,330
Cost of sales		(36,993)	(52,747)
<b>Gross profit</b>		<b>13,921</b>	<b>4,583</b>
Distribution costs		(788)	(831)
Administrative expenses		(7,114)	(7,439)
Other operating income	3	5,988	3,400
<b>Operating profit/(loss)</b>	4	<b>12,007</b>	<b>(287)</b>
Finance expense	8	(366)	(1,097)
<b>Profit/(loss) before tax</b>		<b>11,641</b>	<b>(1,384)</b>
Taxation	9	(1,821)	(2,334)
<b>Profit/(loss) for the financial year</b>		<b>9,820</b>	<b>(3,718)</b>

All results for the year derive from continuing operations.

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**CHEMRING COUNTERMEASURES LIMITED**

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**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 OCTOBER 2021**

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	<b>Note</b>	<b>2021 £000</b>	<b>2020 £000</b>
Profit/(loss) for the financial year		9,820	(3,718)
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Actuarial gain/(loss) on defined benefit schemes	22	2,472	(592)
Movement of deferred tax relating to pension deficit		(852)	122
		<u>1,620</u>	<u>(470)</u>
<b>Total comprehensive income for the year</b>		<u><u>11,440</u></u>	<u><u>(4,188)</u></u>

**CHEMRING COUNTERMEASURES LIMITED**  
**REGISTERED NUMBER:218229**

**BALANCE SHEET**  
**AS AT 31 OCTOBER 2021**

	Note	2021 £000	2020 £000
<b>Non-current assets</b>			
Intangible assets	10	131	604
Property, plant and equipment	11	42,934	43,991
Receivables due after more than one year	13	-	1,594
Pension surplus	22	5,579	3,190
		<u>48,644</u>	<u>49,379</u>
<b>Current assets</b>			
Inventory	12	7,756	7,024
Trade and other receivables	13	7,846	7,866
Cash and cash equivalents		4,663	-
		<u>20,265</u>	<u>14,890</u>
Trade and other payables	14	(18,442)	(38,970)
Derivative financial instruments		-	(5)
		<u>1,823</u>	<u>(24,085)</u>
<b>Net current assets/(liabilities)</b>		<u>1,823</u>	<u>(24,085)</u>
<b>Total assets less current liabilities</b>		<u>50,467</u>	<u>25,294</u>
<b>Non-current liabilities</b>			
Trade and other payables	15	(15)	(17,269)
		<u>50,452</u>	<u>8,025</u>
<b>Provisions for liabilities</b>			
Deferred taxation	17	(3,159)	(2,172)
		<u>(3,159)</u>	<u>(2,172)</u>
<b>Net assets</b>		<u><u>47,293</u></u>	<u><u>5,853</u></u>

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CHEMRING COUNTERMEASURES LIMITED  
REGISTERED NUMBER:218229

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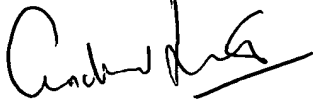
BALANCE SHEET (CONTINUED)  
AS AT 31 OCTOBER 2021

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	Note	2021 £000	2020 £000
<b>Equity</b>			
Share capital	19	30,225	225
Revaluation reserve	20	1,357	1,383
Retained earnings	20	15,711	4,245
		<u>47,293</u>	<u>5,853</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

28 January 2022



A G Lewis  
Director

The notes on pages 17 to 41 form part of these financial statements.

**CHEMRING COUNTERMEASURES LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 OCTOBER 2021**

	Share capital £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
At 1 November 2019	225	1,409	8,407	10,041
<b>Comprehensive loss for the year</b>				
Loss for the year	-	-	(3,718)	(3,718)
Actuarial loss on pension scheme	-	-	(592)	(592)
Surplus on revaluation of freehold property	-	(26)	26	-
Deferred tax movement on pension scheme	-	-	122	122
<b>Total comprehensive loss for the year</b>	-	(26)	(4,162)	(4,188)
At 1 November 2020	225	1,383	4,245	5,853
<b>Comprehensive income for the year</b>				
Profit for the year	-	-	9,820	9,820
Actuarial gain on pension scheme	-	-	2,472	2,472
Surplus on revaluation of freehold property	-	(26)	26	-
Deferred tax movement on pension scheme	-	-	(852)	(852)
<b>Total comprehensive income for the year</b>	-	(26)	11,466	11,440
Shares issued during the year	30,000	-	-	30,000
<b>At 31 October 2021</b>	<b>30,225</b>	<b>1,357</b>	<b>15,711</b>	<b>47,293</b>

See note 19 for details on share capital.  
See note 20 for details on the revaluation reserve.

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## CHEMRING COUNTERMEASURES LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

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#### 1. Accounting policies

##### 1.1 Basis of preparation of financial statements

Chemring Countermeasures Limited is a private company limited by shares incorporated and registered in England and Wales. Its registered office address is included on the company information page.

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies. In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies.

The following principal accounting policies have been applied:

##### 1.2 Financial Reporting Standard 101 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the effects of new but not yet effective IFRSs.

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**CHEMRING COUNTERMEASURES LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 OCTOBER 2021**

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**1. Accounting policies (continued)**

**1.3 Going concern**

As part of a regular assessment of the company's financial performance and position, the directors have prepared a detailed bottom-up budget and cashflow forecast for the period through to October 2023, being at least twelve months after the date of approval of the financial statements.

The directors have considered the potential impacts on the forecast prepared of a severe but plausible downside scenario being a significant reduction in revenue without any controllable mitigating actions taken.

As at 31 October 2021 the company has net current assets of £1,823,000 (2020: £24,085,000 liability) and generated a profit for the year of £9,820,000 (2020: £3,718,000 loss).

The directors, having considered the current financial position and forecast including a severe but plausible downside scenario, believe the company is well placed to manage its risks and have assessed that there is a reasonable expectation that adequate financial resources will continue to be available, through funding from its ultimate parent company, Chemring Group PLC, for the foreseeable future. Chemring Group PLC has indicated its intention to continue to make available such funds as are needed by the company for the period of at least twelve months after the date of approval of the financial statements. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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## CHEMRING COUNTERMEASURES LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

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#### 1. Accounting policies (continued)

##### 1.4 Revenue recognition policy

The majority of the company'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. This also applies to sales where there are no goods shipped but a deliverable is completed at a certain point in time, such as the issue of a report where there is no enforceable right to payment for work in progress.

In a smaller number of cases, revenue also arises from milestone contracts that contain multiple performance obligations. Often these contracts are already divided into milestones for payment purposes, but judgement is required when assessing the way the contract is divided up to ensure that each element is a separate and valid performance obligation. If they are not, the relevant revenue amount is allocated across the other obligations as appropriate. In some cases milestones are achieved in one period but not billed until the next period, leading to a timing difference with the recognition of revenue in advance of customer billing. In this instance accrued income is recognised.

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the company 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 the company's contracts do not have any material variable consideration and no significant judgement has been required around the extent to which this ought to be recognised. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices, where stand-alone selling prices are typically estimated based on expected costs plus contract margin.

##### **Sale of goods**

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the company 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.

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## CHEMRING COUNTERMEASURES LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

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#### 1. Accounting policies (continued)

##### 1.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Freehold property	- Up to 50 years
Plant and machinery	- Up to 10 years
Fixtures, fittings, tools and equipment	- Up to 10 years
Assets under the course of construction	- No depreciation is charged until ready for use

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

##### 1.6 Revaluation of properties

As permitted by IFRS 1, the company has elected not to adopt a policy of revaluation of property, plant and equipment. The company will retain the book value of land and buildings, previously revalued at 30 September 1997 and will not update the valuation.

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation of a provision for impairment of a revalued item of plant, property and equipment, any related balance remaining in the revaluation reserve is also transferred to the income statement as a movement on reserves.

##### 1.7 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

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## CHEMRING COUNTERMEASURES LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

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#### 1. Accounting policies (continued)

##### 1.8 Intangible assets

Development, patent and licence costs are charged to the income statement, as incurred, except where a major project is undertaken and it is reasonably anticipated that costs will be recovered through future commercial activity. Such costs are amortised on a straight-line basis over their useful economic lives, averaging five years.

##### 1.9 Inventory

Inventory consists of raw materials, work in progress and finished goods. Valuation is at the lower of cost and net realisable value. Cost represents materials, direct labour, other direct costs and related overheads, and is determined using the "first-in, first-out" ("FIFO") method. Work in progress and finished goods comprise the cost of materials, labour and overheads applicable to the stage of production. Provision is made for obsolete, slow moving or defective items where appropriate.

##### 1.10 Current tax

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax, including UK corporation tax and foreign tax, is provided for at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

##### 1.11 Deferred tax

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets in the financial statements.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

##### 1.12 Foreign currency

The financial statements are presented in the company's functional currency, pounds sterling, being the currency of the primary economic environment in which it operates.

Transactions denominated in foreign currencies are converted into sterling at the rate of exchange ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Translation differences are dealt with in the income statement.

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## CHEMRING COUNTERMEASURES LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

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#### 1. Accounting policies (continued)

##### 1.13 Financial instruments

Financial assets and liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

##### 1.14 Financial assets

Trade receivables do not carry any interest and are stated at their nominal values as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents comprise cash on hand and demand deposits.

##### 1.15 Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Trade and other payables are not interest bearing and are stated at their nominal value.

Interest bearing loans and overdrafts are recorded at the proceeds received. Finance charges 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.

The company enters into a variety of derivative financial instruments with its parent company to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts and cross currency swaps. Further details of derivative financial instruments are disclosed in note 18.

Derivatives 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 resulting gain or loss is recognised in the income statement immediately.

##### 1.16 Pensions

During the year the company was a participating member of the Group's UK defined benefit pension scheme which covers certain eligible employees. The defined benefit scheme is a Group plan including employees of other Group companies. Following the adoption of FRS 101, the scheme assets and liabilities have been allocated across the Group companies using a method that management consider to be the most appropriate, based on scheme membership.

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.

The company also utilises the Group's UK defined contribution pension scheme. The amount charged to the income statement is the contributions payable in the year. Differences between amounts payable and actually paid are shown as accruals or prepayments in the balance sheet.

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**CHEMRING COUNTERMEASURES LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 OCTOBER 2021**

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**1. Accounting policies (continued)**

**1.17 Leases**

At the lease commencement date (i.e. the date the underlying asset is available for use), the company 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 company'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.

**1.18 Share-based compensation**

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees, profit or loss is charged with fair value of goods and services received.

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## CHEMRING COUNTERMEASURES LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

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#### 1. Accounting policies (continued)

##### 1.19 Judgements in applying accounting policies and estimation uncertainty

When applying the company's accounting policies, management must make 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 assumptions and estimates are based upon factors including historical experience, the observance of trends in the industries in which the company operates, and information available from the company's customers and other external sources.

There are no critical accounting judgements for the company. The other non-significant areas that include a degree of judgement or estimation uncertainty are below.

##### **Accounting judgements**

###### Revenue recognition

Following IFRS 15 Revenue from Contracts with Customers, the company 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 company, 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.

##### **Estimation uncertainty**

###### Defined benefit pension scheme

The company's share of the Group's defined benefit pension scheme is assessed annually in accordance with IAS 19. The accounting valuation, which is based on assumptions determined with independent actuarial advice, resulted in a net surplus of £5,579,000 before deferred taxation being recognised on the balance sheet at 31 October 2021 (2020: £3,190,000).

Included in the Group's defined benefit pension scheme's assets is an insurance policy asset that falls under the Level 3 fair value hierarchy category, where inputs for the asset are not based on observable market data. The asset is offset exactly with a corresponding liability for the same value that is included in the defined benefit pension obligation. The complex nature of the valuation of the Level 3 insurance policy asset is subject to estimation uncertainty in relation to the methodology and assumptions used.

Estimation is required in the determination of the discount rate and inflation assumptions underpinning the valuation of the liabilities of the Group's defined benefit pension scheme. 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.

Further details are included in note 22.

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**CHEMRING COUNTERMEASURES LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 OCTOBER 2021**

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**2. Revenue**

An analysis of revenue by destination is as follows:

	<b>2021 £000</b>	2020 £000
UK	24,989	30,191
Export	25,925	27,139
	<u>50,914</u>	<u>57,330</u>

An analysis of export revenue is not presented as in the opinion of the directors this information would be seriously prejudicial to the commercial interests of the company.

Revenue principally originates from the design, manufacture and marketing of passive airborne and naval countermeasures. Revenue is also generated from the provision of technology consulting services. During the year the company recognised revenue of £48,447,000 (2020: £56,447,000) from the sale of goods and £2,467,000 (2020: £883,000) from the provision of services.

**3. Other operating income**

	<b>2021 £000</b>	2020 £000
Other operating income	5,988	3,400
	<u>5,988</u>	<u>3,400</u>

During the year the company recognised £488,000 (2020: £nil) in respect of research and development tax credits.

During the year the company recognised £5,500,000 (2020: £3,400,000) of insurance proceeds to cover remediation and operating costs.

**4. Operating profit/(loss)**

The operating profit/(loss) is stated after charging/(crediting):

	<b>2021 £000</b>	2020 £000
Depreciation of tangible fixed assets	4,889	4,575
Amortisation of intangible assets	473	1,024
Exchange gains	(206)	(27)
Defined contribution pension cost	526	607
	<u>5,682</u>	<u>6,179</u>

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**CHEMRING COUNTERMEASURES LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 OCTOBER 2021**

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**5. Auditor's remuneration**

	<b>2021</b>	<b>2020</b>
	<b>£000</b>	<b>£000</b>
Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements	68	60

No non-audit services were provided by the auditor.

**6. Staff costs**

Staff costs, including directors' remuneration, were as follows:

	<b>2021</b>	<b>2020</b>
	<b>£000</b>	<b>£000</b>
Wages and salaries	10,082	11,132
Social security costs	1,059	1,122
Share-based payments	152	64
Cost of defined contribution scheme	526	607
	<u>11,819</u>	<u>12,925</u>

The average monthly number of employees, including the directors, during the year was as follows:

	<b>2021</b>	<b>2020</b>
	<b>No.</b>	<b>No.</b>
Direct	131	169
Indirect	141	143
	<u>272</u>	<u>312</u>

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**CHEMRING COUNTERMEASURES LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 OCTOBER 2021**

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**7. Directors' remuneration**

	<b>2021</b>	2020
	<b>£000</b>	£000
Directors' emoluments	429	343
Company contributions to defined contribution pension schemes	26	15
	<u>455</u>	<u>358</u>

During the year retirement benefits were accruing to two directors (2020: three) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £269,000 (2020: £197,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £13,000 (2020: £6,000).

During the year two directors received shares under the Group's long term incentive schemes (2020: two).

The emoluments of A G Lewis, S L Ellard and M Ord were borne by Chemring Group PLC. Their services as directors of this company were considered insignificant in the context of their overall services to the Group and therefore no allocation of remuneration to this subsidiary was made. Details of their total remuneration are publicly available in the financial statements of Chemring Group PLC.

**8. Finance expense**

	<b>2021</b>	2020
	<b>£000</b>	£000
Other interest payable	25	-
Interest payable to Group undertakings	390	1,171
Lease liability interest	2	3
Interest credit on defined benefit pension scheme	(51)	(77)
	<u>366</u>	<u>1,097</u>

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**CHEMRING COUNTERMEASURES LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 OCTOBER 2021**

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**9. Taxation**

	<b>2021</b>	<b>2020</b>
	<b>£000</b>	<b>£000</b>
<b>Corporation tax</b>		
Current tax on profits for the year	96	-
Adjustments in respect of previous periods	-	(423)
	<u>96</u>	<u>(423)</u>
<b>Total current tax</b>	<u>96</u>	<u>(423)</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	2,628	2,323
Changes to tax rates	641	-
Adjustments in respect of prior periods	(1,544)	434
	<u>1,725</u>	<u>2,757</u>
<b>Total deferred tax</b>	<u>1,725</u>	<u>2,757</u>
<b>Taxation</b>	<u>1,821</u>	<u>2,334</u>

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**CHEMRING COUNTERMEASURES LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 OCTOBER 2021**

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**9. Taxation (continued)**

**Factors affecting tax charge for the year**

The tax assessed for the year is lower than (2020 - higher than) the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

	<b>2021</b>	2020
	<b>£000</b>	£000
Profit/(loss) on ordinary activities before tax	11,641	(1,384)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	2,212	(263)
<b>Effects of:</b>		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	68	-
Adjustments to tax charge in respect of prior periods	(1,544)	11
Group relief	444	2,586
Change in tax rate	641	-
<b>Total tax charge for the year</b>	<b>1,821</b>	<b>2,334</b>

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.

The closing UK deferred tax asset as at 31 October 2021 has been calculated at the rates which will be in force when the assets and liabilities are expected to reverse.

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CHEMRING COUNTERMEASURES LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 OCTOBER 2021

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10. Intangible assets

	Development costs £000	Acquired intangibles £000	Total £000
<b>Cost</b>			
At 1 November 2020	1,833	2,054	3,887
At 31 October 2021	<u>1,833</u>	<u>2,054</u>	<u>3,887</u>
<b>Amortisation</b>			
At 1 November 2020	1,434	1,849	3,283
Charge for the year	268	205	473
At 31 October 2021	<u>1,702</u>	<u>2,054</u>	<u>3,756</u>
<b>Net book value</b>			
At 31 October 2021	<u>131</u>	<u>-</u>	<u>131</u>
At 31 October 2020	<u>399</u>	<u>205</u>	<u>604</u>

**CHEMRING COUNTERMEASURES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 OCTOBER 2021**

**11. Plant, property and equipment**

	Freehold property £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Assets under the course of construction £000	Total £000
<b>Cost or valuation</b>					
At 1 November 2020	19,363	38,699	2,766	1,207	62,035
Additions	-	304	563	2,987	3,854
Transfers	-	494	325	(819)	-
Disposals	(3)	(705)	(254)	-	(962)
At 31 October 2021	19,360	38,792	3,400	3,375	64,927
<b>Depreciation</b>					
At 1 November 2020	3,213	13,473	1,358	-	18,044
Charge for the year	372	3,882	635	-	4,889
Disposals	(1)	(693)	(246)	-	(940)
At 31 October 2021	3,584	16,662	1,747	-	21,993
<b>Net book value</b>					
At 31 October 2021	15,776	22,130	1,653	3,375	42,934
At 31 October 2020	16,150	25,226	1,408	1,207	43,991

**Right-of-use assets**

Included within plant and machinery is a carrying amount of £54,000 (2020: £90,000) relating to right-of-use assets. Depreciation of £36,000 (2020: £36,000) was charged during the year on these assets.

**Revaluation**

At 30 September 1997 an independent valuation was undertaken of the company's freehold property. The valuation was performed on a depreciated replacement value basis, as in the opinion of the directors this was understood to be the most appropriate basis as the site at High Post is unique. The directors are of the opinion that this valuation continues to be appropriate. In accordance with the transitional provisions of IFRS 1, this valuation has not been updated.

**CHEMRING COUNTERMEASURES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 OCTOBER 2021**

**11. Plant, property and equipment (continued)**

Cost or valuation at 31 October 2021 is as follows:

	<b>Land and buildings £000</b>
<b>30 September 1997 - depreciated replacement cost at valuation:</b>	4,000
Subsequent additions, disposals and transfers at cost	15,360
	19,360
	19,360

If the land and buildings had not been included at valuation they would have been included under the historical cost convention as follows:

	<b>2021 £000</b>	2020 £000
Cost	18,413	18,413
Accumulated depreciation	(3,498)	(3,158)
<b>Net book value</b>	<b>14,915</b>	<b>15,255</b>

**12. Inventory**

	<b>2021 £000</b>	2020 £000
Raw materials and consumables	3,667	2,929
Work in progress	3,426	3,735
Finished goods	663	360
	<b>7,756</b>	<b>7,024</b>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £18,079,000 (2020: £23,409,000). The write-down of stocks to net realisable value amounted to £1,814,000 (2020: £2,938,000)

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**13. Deferred tax and trade and other receivables**

	<b>2021</b>	2020
	<b>£000</b>	£000
<b>Due after more than one year</b>		
Deferred tax asset	-	1,590
Financial instruments	-	4
	<u>-</u>	<u>1,594</u>
	<b>2021</b>	2020
	<b>£000</b>	£000
<b>Due within one year</b>		
Trade receivables	1,955	7,269
Amounts owed by Group undertakings	-	109
Other receivables	5,541	79
Prepayments and accrued income	268	299
Financial instruments	82	110
	<u>7,846</u>	<u>7,866</u>

The amounts owed by Group undertakings are unsecured and no interest is charged on these amounts.

The directors consider that the carrying value of the debtors approximates to their fair value.

Other receivables include £5,500,000 (2020: £nil) relating to insurance claims where cash was received subsequent to year end.

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**14. Trade and other payables**

	<b>2021</b>	2020
	<b>£000</b>	£000
Bank overdrafts	-	21,027
Advance receipts from customers	849	-
Trade creditors	2,119	2,352
Amounts owed to other Group undertakings	705	65
Lease liabilities	36	38
Other payables	343	601
Accruals and deferred income	14,390	14,887
	<u>18,442</u>	<u>38,970</u>

The Group has a revolving credit facility of £150m. The revolving credit facility was established in July 2021 with a syndicate of six banks and runs until December 2024 with three "one-year" options to extend at the lenders' discretion.

Amounts owed to Group undertakings are unsecured and no interest is charged on these amounts.

Accruals and deferred income includes £nil (2020: £421,000) relating to deferred income.

**15. Non-current liabilities**

	<b>2021</b>	2020
	<b>£000</b>	£000
Lease liabilities	15	49
Amounts owed to Group undertakings	-	17,220
	<u>15</u>	<u>17,269</u>

The amounts owed to the parent company, disclosed as falling due after more than one year, are unsecured and repayable after more than five years. Of this balance, £nil (2020: £17,220,000) attracts a nil (2020: 6.8%) interest rate.

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**16. Leases**

The carrying amount, additions and depreciation charge for right-of-use assets by class of underlying asset is included in note 11.

The expense relating to short-term and low-value leases in the year was £275,000 (2020: £282,000). In total, payments of £38,000 (2020: £42,000) were made under leasing contracts, of which £36,000 (2020: £39,000) was made to repay the principal portion of the lease.

The present value of minimum lease payments is analysed as follows:

	<b>2021</b>	2020
	<b>£000</b>	£000
Within one year	36	38
Between 1-2 years	15	49
	<u>51</u>	<u>87</u>

**17. Deferred taxation**

	<b>2021</b>	2020
	<b>£000</b>	£000
At beginning of year	(582)	2,053
Charged to the income statement	(1,725)	(2,757)
(Charged)/credited to other comprehensive income	(852)	122
<b>At end of year</b>	<u><b>(3,159)</b></u>	<u><b>(582)</b></u>

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**17. Deferred taxation (continued)**

The deferred tax balance is made up as follows:

	<b>2021 £000</b>	<b>2020 £000</b>
Accelerated capital allowances	(2,748)	(1,439)
Tax losses carried forward	970	799
Pension surplus	(1,458)	(532)
Other timing differences	77	110
Acquired intangibles	-	480
	<u>(3,159)</u>	<u>(582)</u>
<b>Comprising:</b>		
Asset - due after one year	-	1,590
Liability	(3,159)	(2,172)
	<u>(3,159)</u>	<u>(582)</u>

The closing UK deferred tax asset as at 31 October 2021 has been calculated at the rates which will be in force when the assets and liabilities are expected to reverse. It is expected that the deferred tax asset will be offset against future taxable profits.

**18. Financial instruments**

Forward foreign exchange contracts

The company has forward foreign exchange contracts with fair values of £nil liability (2020: £5,000 liability) and £82,000 asset (2020: £114,000 asset).

The loss on the movement in fair value of the derivative financial instruments recognised in the income statement is £27,000 (2020: £109,000 gain).

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**19. Share capital**

	<b>2021</b>	2020
	<b>£000</b>	£000
<b>Allotted, called up and fully paid</b>		
30,225,000 (2020 : 225,000) ordinary shares of £1.00 each	30,225	225
	<u>30,225</u>	<u>225</u>

During the year the company issued 30,000,000 £1 ordinary shares for a consideration of £30,000,000, settled in cash.

**20. Reserves**

**Revaluation reserve**

The revaluation reserve represents the cumulative effect of revaluations of freehold land and buildings less the realisation of valuation gains in previous periods.

**21. Capital commitments**

At 31 October 2021 the company had contracted for, but not provided in the financial statements, amounts totalling £330,000 (2020: £nil) for the acquisition of property, plant and equipment.

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**22. Pension commitments**

During the year under review the parent company, Chemring Group PLC, operated a defined contribution pension scheme, The Chemring Group UK Retirement Savings Plan, in the UK. The company contributed £526,000 (2020: £607,000) to this scheme during the year, with all balances settled in the period to which they related.

During the year under review Chemring Group PLC also operated a defined benefit scheme, the Chemring Group Staff Pension Scheme (the "Staff Scheme"). As a result of the adoption of FRS 101, the company has assumed its share of the assets and liabilities of the Group's defined benefit pension scheme. Under the funding plan agreed with the trustees following the 2021 actuarial valuation, no further deficit recovery payments are required. The parent 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 following balances relate to the Group's defined benefit pension scheme:

	<b>2021</b>	<b>2020</b>
	<b>£m</b>	<b>£m</b>
Equities	18.4	17.9
Liability driven investments	24.7	26.5
Diversified alternatives	26.3	21.8
Multi-asset credit	23.3	20.2
Assets held by insurance company	1.5	1.9
Cash	9.4	9.6
<b>Total market value of scheme assets</b>	<b>103.6</b>	<b>97.9</b>
Present value of scheme liabilities	(89.9)	(90.3)
<b>Net pension surplus</b>	<b>13.7</b>	<b>7.6</b>

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**22. Pension commitments (continued)**

	<b>2021</b>	2020
	<b>£m</b>	£m
Opening surplus in the scheme	7.6	9.6
Contributions	-	-
Interest credit	0.2	0.2
Service costs	(0.3)	(0.3)
Actuarial gains/(losses)	6.2	(1.9)
<b>Closing surplus in the scheme</b>	<b>13.7</b>	<b>7.6</b>

The figures shown above were calculated on the basis of the following assumptions:

	<b>2021</b>	2020
Discount rate	1.8%	1.7%
Rate of increase in deferred pensions	2.7%	2.1%
Rate of increase in pensions (where applicable)	3.2%	2.8%
Inflation assumption - RPI	3.4%	2.9%
Inflation assumption - CPI	2.7%	2.1%

In determining the pension liabilities the Group uses mortality assumptions which are based on published mortality tables. For the Staff Scheme, the actuarial table currently used is SAPS Normal Health pensioner tables with future improvements in line with CMI 2018 and 1.25% long term trend rate.

	<b>2021</b>	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 assumption considered to be the most significant is the discount rate adopted. If the discount rate in the Staff Scheme were to change by 0.1% then it is predicted that the deficit in the Staff Scheme would change by approximately £1.4 million. A change in the rate of inflation by 0.1% is predicted to change the deficit by approximately £0.8 million and a one year change to the longevity assumption would change the deficit by approximately £3.7 million.

Further information can be found in the Chemring Group PLC 2021 annual financial statements. These can be obtained from the Group website ([www.chemring.com](http://www.chemring.com)) or by contacting the registered office, the address of which is set out on the company information page at the start of these financial statements.

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**22. Pension commitments (continued)**

The net pension scheme surplus recognised on the balance sheet, representing the company's share of the assets and liabilities of the Group's defined benefit pension scheme, is as follows:

	<b>2021</b>	2019
	<b>£000</b>	£000
Opening surplus in the scheme	3,190	3,858
Interest credit	51	77
Administrative expenses	(134)	(153)
Actuarial gains/(losses)	2,472	(592)
<b>Net pension scheme surplus</b>	<u>5,579</u>	<u>3,190</u>

The company anticipates its contributions to the defined benefit scheme for the year ending 31 October 2021 will be £nil (2020: £nil).

The company recognised a total expense of £83,000 (2020: £76,000) relating to the defined benefit pension scheme in the year.

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**23. Chemring Group Performance Share Plan**

The company participates in share-based compensation arrangements in the form of the Chemring Group Performance Share Plan ("PSP"), which provides incentives to the Group's senior management and other eligible employees, the cost of which is recharged to the company. Under the PSP, conditional awards of ordinary shares are made at nil cost to employees. Awards ordinarily vest on the third anniversary of the award date, subject to satisfaction of performance conditions. The scheme commenced in March 2016.

The company has applied a discount to the share-based awards, to reflect the anticipated achievement of the stipulated targets for each PSP award, based on the predicted figures within the Group's strategic plan as well as the expected number of leavers over the life of the PSP awards.

Number of conditional shares:

	<b>2021 No.</b>	<b>2020 No.</b>
Outstanding at the beginning of the year	166,175	153,030
Awarded	58,500	82,142
Lapsed	-	(68,997)
<b>Outstanding at the end of the year</b>	<b>224,675</b>	<b>166,175</b>

The PSP awards made in the year ended 31 October 2021 contained performance conditions based partially on earnings per share (EPS) growth targets and partially on total shareholder return (TSR) ratios.

The company recognised a total expense of £152,000 (2020: £64,000) relating to equity-settled share-based payment transactions in the year. Details of the valuation of the PSP can be found in the accounts of Chemring Group PLC.

**24. Ultimate parent undertaking and controlling party**

In the opinion of the directors the company's ultimate parent company and controlling party is Chemring Group PLC, a company incorporated in England and Wales. Copies of the Group financial statements of Chemring Group PLC are available at the Group website ([www.chemring.com](http://www.chemring.com)) or by contacting the registered office, the address of which is listed on the company information page at the start of these financial statements. Chemring Group PLC is the largest and smallest group of which the company is a member and for which consolidated financial statements are prepared.