Chemring
Innovating to protect

12 December 2023

CHEMRING GROUP PLC
("Chemring", "the Group" or "the Company")

RESULTS FOR THE YEAR ENDED 31 OCTOBER 2023
Strong performance across the Group; record order intake and order book; increasing demand across global defence market

	As reported		*At 2022 exchange rates*		
	2023	***Change***	*2023*	*Change*	2022
Continuing operations					
Order intake (£m)	**756.4**	**+37%**	772.7	+40%	551.5
Revenue (£m)	**472.6**	**+18%**	477.7	+19%	401.0
Underlying EBITDA* (£m)	**88.5**	**+14%**	91.2	+18%	77.3
Underlying operating profit* (£m)	**69.2**	**+16%**	71.7	+21%	59.4
Underlying profit before tax* (£m)	**67.9**	**+17%**	71.7	+24%	57.9
Underlying diluted earnings per share* (pence)	**20.0**	**+8%**	20.7	+12%	18.5
Statutory operating profit (£m)	**45.4**	**-8%**			49.4
Dividend per share (pence)	**6.9**	**+21%**			5.7
Net debt at 31 October (£m)	**14.4**	**+100%**	14.1	+96%	7.2
Order book at 31 October (£m)	**921.6**	**+42%**	964.5	+48%	650.9

Key achievements

- 2023 was slightly ahead of the Board's initial expectations despite foreign exchange headwinds
- Record order intake of £756m, with growth across both segments:
  - Order intake for Countermeasures & Energetics was £541m, up 52%, driven by strong demand at our niche Energetics businesses where order intake was up 161%
  - Order intake for Sensors & Information was £215m, up 10%, with Roke continuing to execute its growth strategy
- Closing order book at the highest level in over a decade at £922m
- Roke revenue was up 45% to £160m and order intake up 9% to £183m with the business well positioned to continue its growth trajectory in what continues to be a buoyant market
- Net debt was £14.4m (2022: £7.2m), with strong operating cash generation and cash conversion of 101% on a rolling 36 month basis (2022: 108%). Net debt to underlying EBITDA was 0.16 times (2022: 0.09 times)
- £120m capacity expansion plan to 2026 initiated to capitalise on growing demand in the energetics market, delivering expected incremental revenue of £85m per annum from 2026/27
- £9m deployed in Q4 into the £50m share buyback programme announced on 1 August 2023
- A buy-in contract was entered into with an insurer in respect of the Group's defined benefit pension scheme on 28 November 2023, which will remove future risk associated with funding of the scheme
- Proposed final dividend per share of 4.6p, up 21%, giving a total dividend of 6.9p (2.9 times cover)
- The Board's expectations for 2024 are unchanged. Approximately 79% (2022: 86%) of expected 2024 revenue is covered by the order book, with unprecedented cover in Countermeasures & Energetics for 2025 and 2026 at 71% and 65% respectively of expected revenue.

Michael Ord, Group Chief Executive, commented:

"2023 was another year of strong Group performance; and in an environment of increasing global uncertainty demand continues to grow for our mission-critical products and services. With record order intake and an order book at the highest level in over a decade the Group is well placed for continued delivery of sustainable performance and growth.

Trading since the start of the current financial year has been in-line with plans, and with 79% of expected revenue covered by the order book the Board's expectations for 2024 performance are unchanged.

The outlook for global defence markets is increasingly robust, with continued growth expected over the next decade. This growing visibility gives us the confidence to continue to invest for the future, balancing near-term performance with longer-term growth and value creation.

Chemring is well placed to deliver on its many opportunities."

Notes:
* All profit and earnings per share figures in this news release relate to underlying business performance (as defined below) from continuing operations unless otherwise stated. See note 4 for a reconciliation of the reported comparative values to the comparative values that have been re-presented on the basis of the classification of operations as discontinued.

The principal alternative performance measures ("APMs") presented are the underlying measures of earnings which exclude: exceptional items, gain or loss on the movement on the fair value of derivative financial instruments, the amortisation of acquired intangibles and the associated tax impact on these items. The Directors believe that these APMs assist with the comparability of information between reporting periods as well as reflect the key performance indicators used within the business to measure performance. The term underlying is not defined under IFRS and may not be comparable with similarly titled measures used by other companies.

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

Group – continuing operations:	**Underlying**	**Non-underlying**	**Statutory**
EBITDA (£m)	88.5	(20.8)	67.7
Operating profit (£m)	69.2	(23.8)	45.4
Profit before tax (£m)	67.9	(23.8)	44.1
Tax charge (£m)	(10.2)	3.8	(6.4)
Profit after tax (£m)	57.7	(20.0)	37.7
Basic earnings per share (pence)	20.5p	(7.1)	13.4
Diluted earnings per share (pence)	20.0p	(6.9)	13.1
Group – discontinued operations:			
Loss after tax (£m)	(0.9)	(31.4)	(32.3)
Segments – continuing operations:			
Sensors & Information EBITDA (£m)	38.5	(22.2)	16.3
Sensors & Information operating profit (£m)	34.2	(23.5)	10.7
Countermeasures & Energetics EBITDA (£m)	65.5	-	65.5
Countermeasures & Energetics operating profit (£m)	50.5	(1.7)	48.8

The adjustments comprise:

- amortisation of acquired intangibles of £3.0m (2022: £3.9m)
- costs relating to acquisitions of £3.7m (2022: £2.0m)
- impairment of Chemical Detection assets £18.5m (2022: £nil)
- gain on the movement in the fair value of derivative financial instruments of £1.4m (2022: £4.1m loss)

- tax impact of the adjustments above: £3.8m credit (2022: £1.1m credit); and
- discontinued operations in respect of the explosive hazard detection ("EHD") business in Sensors & Information, net of tax, of £31.4m (2022: £0.5m) which includes an impairment of goodwill and other assets.

Further details are provided in note 3.

EBITDA is defined as profit before interest, tax, depreciation and amortisation. Reference to constant currency relates to the re-translation of 2023 financial information at the 2022 exchange rates to reflect the movement excluding the impact of foreign exchange. The exchange rates applied are disclosed in note 10.

For further information:

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Cautionary statement

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

Notes to editors

- Chemring is a global business that specialises in the manufacture of high technology products and the provision of services to the aerospace, defence and security markets
- Employing approximately 2,600 people worldwide, and with production facilities in four countries, Chemring meets the needs of customers in more than fifty countries
- Chemring is organised under two strategic product segments: Sensors & Information and Countermeasures & Energetics
- Chemring has a diverse portfolio of products that deliver high reliability solutions to protect people, platforms, missions and information against constantly changing threats
- Operating in niche markets and with strong investment in research and development ("R&D"), Chemring has the agility to rapidly react to urgent customer needs

www.chemring.com

Presentation
A video presentation and accompanying slides will be available at the Chemring Group results centre www.chemring.com/investors/results-centre at 07.00 (UK time) on Tuesday 12 December 2023.

Analyst meeting

An analyst meeting will take place at 09.00 (UK time) on Tuesday 12 December 2023 at the offices of Investec Bank plc, 30 Gresham St, London EC2V 7QP. To confirm attendance please contact MHP: chemringplc@mhpgroup.com /+44 (0)7711 191518.

Photography

Original high resolution photography is available to the media by contacting Catherine Chapman, MHP Communications: catherine.chapman@mhpgroup.com / tel: +44 (0)7711 191518.

Group overview

We delivered a result for 2023 that was slightly ahead of the Board's initial expectations while working hard to adapt to changing customer spending priorities driven by global uncertainty and increased demand for both technology-driven solutions, and a resurgent demand for traditional defence capabilities. This has resulted in record order intake and provides a strong outlook in the medium term.

Order intake for 2023 was exceptionally strong in both segments, up 37% to £756m (2022: £551m), with increasing demand in our niche Energetics businesses, where order intake was up 161% to £358m (2022: £137m), and in Sensors & Information, where Roke's total order intake was £183m (2022: £168m) as it continues to win work in a buoyant market.

Revenue was up 18% to £472.6m (2022: £401.0m) reflecting significant growth in Roke and improved operational execution delivering strong output in our niche Energetics businesses.

On a constant currency basis the Group's revenue was up 19% to £477.7m (2022: £401.0m), underlying operating profit was up 21% to £71.7m (2022: £59.4m) and underlying diluted earnings per share was up 12% to 20.7p (2022: 18.5p). Foreign exchange translation has proved to be a headwind to revenue and operating profit compared with last year. While exchange rates have been volatile in the year, the US dollar, Australian dollar and Norwegian krone have all weakened against sterling. A summary of the impact of the exchange rate movements on the key metrics at a Group and sector level is shown in the table below.

	At constant currency		*As reported*		
	2023 £m	***Change***	*2023 £m*	*Change*	2022 £m
Group:					
Order intake	**772.7**	**+40%**	*756.4*	*+37%*	551.5
Order book	**964.5**	**+48%**	*921.6*	*+42%*	650.9
Revenue	**477.7**	**+19%**	*472.6*	*+18%*	401.0
Underlying EBITDA	**91.2**	**+18%**	*88.5*	*+14%*	77.3
Underlying operating profit	**71.7**	**+21%**	*69.2*	*+16%*	59.4
Underlying diluted earnings per share (pence)	**20.7**	**+12%**	*20.0*	*+8%*	18.5
Sensors & Information:					
Order intake	**215.1**	**+10%**	*215.4*	*+10%*	195.2
Order book	**172.2**	**+12%**	*170.6*	*+11%*	153.7
Revenue	**187.3**	**+55%**	*187.0*	*+55%*	120.5
Underlying EBITDA	**38.6**	**+38%**	*38.5*	*+38%*	28.0
Underlying operating profit	**34.3**	**+35%**	*34.2*	*+35%*	25.4
Countermeasures & Energetics:					
Order intake	**557.6**	**+56%**	*541.0*	*+52%*	356.3
Order book	**792.3**	**+59%**	*751.0*	*+51%*	497.2
Revenue	**290.4**	**+4%**	*285.6*	*+2%*	280.5
Underlying EBITDA	**68.1**	**+6%**	*65.5*	*+2%*	64.2
Underlying operating profit	**52.9**	**+8%**	*50.5*	*+3%*	48.9

2022 comparatives have been re-presented reflecting the explosive hazard detection business as discontinued in accordance with IFRS 5, see note 4.

The Group's net debt at 31 October 2023 was £14.4m (2022: £7.2m), representing a net debt to underlying EBITDA ratio of 0.16x (2022: 0.09x). 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, with working capital as a percentage of revenue lower at 17% (2022: 21%). The Group is working to achieve further improvements over the medium term.

The Group's order book at 31 October 2023 was £922m (2022: £651m), of which approximately £403m is scheduled for delivery during 2024, representing cover of approximately 79% (2022: 86%) of expected 2024 revenue. On a constant currency basis, using the 2022 closing exchange rates, the order book would be £965m. The increase since 31 October 2022 is attributable to strong order intake at Roke and across the Countermeasures & Energetics sector. This leaves £519m of the order book to be delivered in 2025 and beyond. At this stage, this provides approximately 71% of 2025 and 65% of 2026 revenue cover in Countermeasures & Energetics.

Markets

The ongoing geopolitical turbulence has resulted in many countries re-appraising their defence and national security priorities, including increasing budgets, to specifically address the security challenges posed by Russia and China. Against this heightened threat environment, the role of multi-lateral organisations such as the North Atlantic Treaty Organization ("NATO") and the European Union ("EU") is also becoming more significant.

The Russia-Ukraine conflict has specifically refocused attention on the broad spectrum of defence capabilities relevant to a significant peer conflict. It has also brought a renewed focus on modernisation and replacement of NATO capabilities, including those being donated to assist Ukraine.

China's extensive military modernisation programme has in many cases, generated a requirement for increasingly cutting-edge solutions to protect against a continuum of threats. These range from long-range hypersonic missiles through to sub-threshold "grey-zone" activity, with the latter involving the extensive use of digital-based threats such as cyber-attacks and disinformation campaigns.

The Group's diverse and niche capabilities make it well placed to support our customers' abilities to respond to this deteriorating security environment.

Strategy

The Group's strategy is to deliver sustainable, profitable growth by operating in niche markets with high barriers to entry, and where we enjoy market leading, technology-differentiated, positions. Our continued investment to develop intellectual property in priority, growing areas of the defence and security market has supported us in establishing deep long-term customer relationships, often acting as a sole source supplier.

The Sensors & Information sector is a key area of focus for Chemring, with our customers increasingly seeking advanced technology solutions to address their threats and challenges. We will continue to expand our product, service and capability offerings to develop innovative solutions to support them with achieving mission success in protecting their people, assets and data.

The Countermeasures & Energetics sector strategy is operationally driven, and we are investing to strengthen and grow our focused, world-leading positions. Russia's invasion of Ukraine in February 2022 has driven unprecedented levels of demand for our specialist energetic capabilities, and we are investing to modernise and expand our manufacturing capacity to respond to our customers' needs. In Countermeasures we will continue the process of modernisation and automation across our sites, sharing technology and manufacturing excellence across the Group where possible.

In recent years Chemring has been focused on building a stronger, higher-quality and more resilient business. In doing so, it has built a strong and deployable balance sheet which has provided the Group with increased optionality. Our disciplined approach to capital allocation prioritises organic and inorganic investment, a growing and sustainable dividend, other returns to shareholders and a prudent approach to leverage. Favourable market conditions for our niche Energetics businesses underpinned the Group's strategic decision to approve a 3 year £120m investment to increase capacity by £85m per annum. In August 2023 we announced the launch of a share buyback programme of up to £50m. This provides us with additional flexibility to deliver value for our shareholders and maintain our commitment to balance near-term performance with longer-term growth and value creation.

As a Board we will continue to assess strategically aligned, accretive acquisitions that can accelerate our growth strategy, and for opportunities to leverage our capabilities into adjacent markets. Beyond enhancing shareholder value and complementing our broader growth plans, we have a well-defined set of criteria that any target must meet. So far, our recent acquisition activity has supplemented our Roke business; however, we are continuing to explore inorganic growth opportunities in the US space and missiles sector. Both these areas offer significant prospects for long-term growth and are aligned to the Group's high technology competencies.

Beyond this we will continue to focus on developing a safe, sustainable, and resilient business that is able to deliver progression through continuous improvement in operational performance and execution. We shall continue to invest in both our people and our infrastructure to deliver further growth into the future.

Group financial performance

Order intake for 2023 was exceptionally strong in both segments, up 37% to £756m (2022: £551m), with strong demand in our niche Energetics businesses, where order intake was up 161% to £358m (2022: £137m), and in Sensors & Information, where Roke's total order intake was £183m (2022: £168m) as it continues to win work in a buoyant market.

Revenue was up 18% to £472.6m (2022: £401.0m) reflecting significant growth in Roke and improved operational execution delivering strong performance in our niche Energetics businesses.

The underlying operating profit of £69.2m (2022: £59.4m) resulted in an underlying operating margin of 14.6% (2022: 14.8%). The Group margin was flat, reflecting the continuing operating expense investment in Roke to prepare it for further future growth, which was partially offset by a richer mix of higher margin Energetics business in Countermeasures & Energetics.

Total finance expense was lower at £1.3m (2022: £1.5m) reflecting the continued focus on working capital management offset by the increase in interest rates during 2023.

Underlying basic earnings per share from continuing operations was 20.5p (2022: 19.0p) and diluted underlying earnings per share from continuing operations was 20.0p (2022: 18.5p).

Statutory operating profit was £45.4m (2022: £49.4m) and after statutory finance expenses of £1.3m (2022: £1.5m), statutory profit before tax was £44.1m (2022: £47.9m). The statutory profit after tax from continuing operations was £37.7m (2022: £44.4m) giving a statutory basic earnings per share from continuing operations of 13.4p (2022: 15.8p).

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

As announced in November 2023, the explosive hazard detection division of our US Sensors business has been treated as discontinued under IFRS 5 in 2023 and as a result all 2022 comparatives have been re-presented. A full reconciliation of this is provided in note 4.

Segmental review – Sensors & Information

Performance

Order intake in the year was up 10% to £215m (2022: £195m). This was driven by a 9% increase in Roke's order intake, with a growing number of multi-year contracts for products and services, which include an element of "pass-through" (see table below for an analysis of the impact of this), and the receipt of a US$15m delivery order for the third year of EMBD full rate production. Our US Sensors business also received a $15m low rate initial production ("LRIP") contract for the JBTDS Program of Record in September 2023.

Roke "pass-through" impact	**2023 £m**	2022 £m	**Change**
Order intake			
Products and services	**156**	132	**+18%**
Pass-through	**27**	36	**-25%**
As reported	**183**	168	**+9%**
Revenue			
Products and services	**128**	94	**+36%**
Pass-through	**32**	16	**+100%**
As reported	**160**	110	**+45%**

Revenue for Sensors & Information increased by 55% to £187.0m (2022: £120.5m) and underlying operating profit increased by 35% to £34.2m (2022: £25.4m), as underlying operating profit margin declined to 18.3% (2022: 21.1%) driven by the operating expense investment in Roke Academy, Roke Futures and Roke USA, and the increase in margin dilutive "pass-through" revenue as shown in the table above. Adjusting for the "pass-through" revenue, the Sensors & Information underlying operating profit margin would have been 22.1%. On a constant currency basis revenue would have risen 55% to £187.3m and underlying operating profit would have increased by 35% to £34.3m. The statutory operating profit for the year was £10.7m (2022: £22.4m), with the decrease driven by the non-cash impairment of Chemical Detection assets.

In the UK, the markets for Electronic Warfare ("EW"), cyber and data science capabilities, in which Roke is a leading participant, have remained buoyant in the period. As shown above, Roke has delivered strong growth in orders and revenue with double-digit growth in underlying operating profit and has maintained strong margins despite increased investment in people, infrastructure and product development.

In the last five years, successful execution of its strategy has seen Roke double in size. Its headcount has increased from c.400 at the end of 2018 to c.1000 today, driven in part by the success of its graduate and apprenticeship schemes, and the continued success of the Roke Academy. During 2023 the Roke Academy welcomed its second and third cohorts of engineers, with the first cohort, who joined in July 2022, now operating as fee earners out of the new Woking office. This year's two cohorts have brought in 50 new engineers, of whom ten are female, all from a wide variety of backgrounds.

In September 2023 Roke received a significant contract award valued at £40m to deliver the next two years of Project ZODIAC for the UK MOD. ZODIAC is the backbone of the British Army's Land ISTAR Programme, and will deliver an integrated intelligence, surveillance, target acquisition, and reconnaissance ("ISTAR") system, which will transform how the Army undertakes data-led decision making in the Land environment to gain operational advantage.

In Roke's defence markets, the increasing importance of Cyber and Electromagnetic Activity ("CEMA") in today's threat environment, heightened further as a consequence of Russia's invasion of Ukraine, has led to a growing number of enquiries for Roke's suite of world-leading EW products.

A notable highlight in the period has been the progress made in the Roke Futures business area, which has continued to make strong progress in scaling its business activities in 2023. Roke Futures delivers technology solutions to clients outside of National Security and Defence markets and is gaining traction with customers including Rolls-Royce, Waygate Technologies, Vodafone and a FTSE 100 multinational mining company, through the development of innovative technology solutions and approaches. Roke technologies and capabilities, such as autonomy and intelligent sensing, can fundamentally change the way in which minerals are processed, unlocking production capacity through improvements in efficiency and the reduction of waste.

Our US Sensors business continued its transition away from explosive hazard detection to focus on building winning solutions to convert current US Programs of Record into low rate and full rate production, and on exploiting a growing opportunity in bio-security and surveillance. In a post-pandemic and contested world, governments are becoming increasingly concerned by the risks of both naturally occurring and engineered biological threats. Advances in synthetic biology now give our national adversaries the capability to deliberately engineer organisms to create hazards and cause harm.

Following the successful completion of the engineering and manufacturing development ("EMD") phase of the Joint Biological Tactical Detection System ("JBTDS") program, a low rate initial production ("LRIP") Production Readiness Review, with supporting Manufacturing Readiness Assessment, took place in mid-May. In August 2023 our US Sensors business was informed that the Milestone C procurement decision in respect of the JBTDS program had been approved and in September 2023 the business received a LRIP contract, valued at $15m. Hardware deliveries under this contract will be made over the next ten to 14 months, with a full rate production contract expected to be awarded thereafter.

Deliveries under the full rate production phase of the Enhanced Maritime Biological Detection System ("EMBD") program have continued as planned. This fully automated sensor to rapidly detect, collect, identify and sample airborne biological warfare agents is supporting the US Navy. We received a third option quantity exercised under the sole source $99m Indefinite Delivery/Indefinite Quantity contract worth $15.3m, with deliveries expected to be made through to 2024.

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, AI and machine learning, tactical EW and information security, and securing positions on the US DoD Programs of Record.

In the 2022 annual report, we stated that our vision for the next five years was to maintain Roke's recent record of growth, doubling annual revenue to greater than £200m organically, whilst maintaining strong margins. With the increased activity that we have seen across all Roke's business areas we have revised that vision, raising our ambitions to increase Roke's annual revenues to greater than £250m organically by 2028, whilst maintaining strong margins.

In our US Sensors business the EMBD program provides good short-term visibility and following the LRIP award on JBTDS in 2023 we expect this program to enhance medium-term visibility but first full rate production revenue is not expected until 2026.

The order book for Sensors & Information at 31 October 2023 was £171m (2022: £154m) driven by strong order intake and an increase in multi-year contracts in Roke and the award of JBTDS LRIP in US Sensors. Of this, £122m is expected to be delivered in 2024, providing 61% cover of expected 2024 revenue. 2024 trading performance for Sensors & Information is expected to show a continuation of the momentum seen in 2023, with continued growing demand for Roke's products and services. Medium-term growth opportunities in the US are driven by the Group's sole source positions on the biological detection Programs of Record moving into full rate production.

Segmental review – Countermeasures & Energetics

Performance

Order intake in the year up 52% at £541m (2022: £356m), driven by multi-year orders received across the sector.

In the Energetics sector we continue to see increased levels of activity and demand in the propellants and energetic materials markets as customers re-evaluate their operational usage and stockpile requirements associated with traditional defence capabilities. As a result, our three niche Energetics businesses, which design and manufacture high precision engineered devices and specialist materials, have seen strong customer demand with order intake up 161% to £358m (2022: £137m).

Our Norwegian-based subsidiary, Chemring Nobel, had a particularly strong performance, finishing the year with a record order book which provides significant visibility over the medium term. Over £40m of orders were won in the final month of the year, which included a £30m order to supply Dyno-Nobel with a range of energetic materials over the next five years. Chemring Nobel continues to work with other customers including Diehl Defence, Rheinmetall and Nammo on similar long-term contracting models.

Our Scottish facility received notable contract awards including a £43m order for the delivery of critical components used on the NLAW system.

In the US, our Chicago business received multiple orders in the period including two contracts totalling $23m to supply critical components to Lockheed Martin, and a $46m order to supply key parts on the United Launch Alliance ("ULA") Vulcan launch system, including flight-critical initiators, thrusters and cartridges. Our Chicago business now has a record order book which is in excess of $165m.

Revenue for Countermeasures & Energetics was up by 2% to £285.6m (2022: £280.5m). The sector reported an underlying operating profit of £50.5m (2022: £48.9m) as underlying operating margin increased to 17.7% (2022: 17.4%), driven by the richer margin mix in our Energetics businesses. On a constant currency basis revenue would have been up 4% to £290.4m and operating profit would have been up 8% to £52.9m.

Opportunities and outlook

The Countermeasures & Energetics sector focus remains on maintaining and growing the Group's market-leading positions, in particular in the growing markets for propellants and precision engineered energetic devices, and in Countermeasures for key platforms such as the F-35.

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 significantly improved visibility.

As planned, we will continue to complete the process of modernisation and automation across our sites. This is now embedded in our Countermeasures sites and our future focus will be on our Energetics facilities. The improved market conditions for our Energetics businesses reflected in our order intake and order book has presented a strong organic growth opportunity to expand capacity at these sites in parallel with the planned modernisation to capitalise on the long-term demand we are seeing. In June and November 2023, we announced a three-year investment programme through to 2026 at a cost of approximately £120m which, when completed, is expected to generate incremental revenue of circa £85m and incremental operating profit of circa £20m per annum.

The Countermeasures & Energetics order book at 31 October 2023 was up 51% to £751m (2022: £497m). The increase compared to the 2022 year-end closing order book is largely attributable to the strong order intake across the Energetics businesses whose customers are increasingly placing multi-year orders. Of the 31 October 2023 order book, approximately £281m is currently expected to be delivered in 2024, representing 90% coverage of expected 2024 revenue and approximately 71% of 2025 and 65% of 2026 expected revenue.

Net debt and cash flow

The Group's net debt at 31 October 2023 was £14.4m (2022: £7.2m), representing a net debt to underlying EBITDA ratio of 0.16x (2022: 0.09x). 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.

Underlying operating activities generated cash of £80.0m (2022: £85.1m). Underlying cash conversion was 90% (2022: 110%) of underlying EBITDA, and an average of 101% on a rolling 36-month basis (2022: 108%).

Working capital

Working capital was £82.3m (2022: £93.9m), a decrease of £11.6m. As a percentage of revenue, working capital has decreased to 17% (2022: 21%). We continued with our focus on commercial contracting, inventory levels and cash management. Year-end trade receivable days of 16 (2022: 17) and trade payable days of 18 (2022: 18) demonstrate that working capital has been managed in a balanced and sustainable manner.

Tax

The underlying tax charge totalled £10.2m (2022: £4.6m) on an underlying profit before tax of £67.9m (2022: £57.9m). The effective tax rate on underlying profit before tax for the year was a charge of 15.0% (2022: 7.9%).

The charge in the previous year was reduced by a credit for the recognition of a deferred tax asset in respect of future US interest deductions that were previously unrecognised, which was not repeated in the current year. Looking forward into 2024 we expect the Group effective tax rate to increase to approximately 20%, reflecting the full year effect of the increase in the UK corporation tax rate and an increased weighting of UK profits as Roke continues to grow. The statutory tax charge totalled £6.4m (2022: £3.5m) on a statutory profit before tax of £44.1m (2022: £47.9m).

Retirement benefit obligations

The surplus on the Group's defined benefit pension scheme was £5.9m (2022: £11.2m), measured in accordance with IAS 19 (Revised) Employee Benefits.

The surplus relates to the Chemring Group Staff Pension Scheme (the "Scheme"), a UK defined benefit scheme whose assets are held in a separately administered fund. The Scheme was closed to future accrual in April 2012. A full actuarial valuation for the Scheme was completed as at 6 April 2021, and has been updated to 31 October 2023, using the projected unit credit method. Despite the volatility in equity and bond markets throughout the period and increased inflation expectations, the resilience of the Scheme's investment strategy, which included a liability driven investment which hedged future interest rate and inflation risk, has protected the Scheme's surplus position which represents 110% of Scheme liabilities.

The 6 April 2021 triennial valuation 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.

As at 31 October 2022, £2.0m was due from the Chemring Group Staff Pension Scheme representing a short-term loan to fund margin calls on liability driven investments which was repaid in November 2022.

On 28 November 2023 the trustees of the Group's legacy UK defined benefit pension scheme, the Chemring Group Staff Pension Scheme (the "Scheme"), entered into a buy-in contract with an insurer, Pension Insurance Corporation ("PIC"). The Group has made an initial payment to the Scheme of £1.6m and expects to pay c£3m over the next two years as a contribution to the buy-in premium, to provide funding for the rectification of certain members' benefits and to meet the costs associated with the initial buy-in and eventual buy-out of the Scheme. On completion of the full buy-out of the Scheme, the defined benefit assets and matching defined benefit liabilities will be derecognised from the Group balance sheet.

Dividends

The Board continues to recognise that dividends are an important component of total shareholder returns. The Board's objective is to pay a growing and sustainable dividend and to continue to target a medium-term dividend cover of c.2.5 times underlying earnings per share, subject *inter alia* to maintaining a strong financial position.

The Board is recommending a final dividend in respect of the year ended 31 October 2023 of 4.6p (2022: 3.8p) per ordinary share. With the interim dividend of 2.3p per share (2022: 1.9p), this results in a total dividend of 6.9p (2022: 5.7p) per share, an increase of 21% on the prior year. If approved, the final dividend will be paid on 12 April 2024 to shareholders on the register on 22 March 2024. In accordance with accounting standards, this final dividend has not been recorded as a liability as at 31 October 2023.

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 2024 performance are unchanged.

The Group order book as at 31 October 2023 was £922m, of which £403m is currently expected to be recognised as revenue in 2024, giving 79% order cover, which provides excellent visibility for the full year. This leaves £519m of the order book to be delivered in 2025 and beyond, which provides approximately 71% of 2025 and 65% of 2026 revenue cover in Countermeasures & Energetics.

With market-leading innovative technologies and services that are critical to our customers, together with the flexibility provided by the Group's strong balance sheet, the Board is confident that Chemring will continue to deliver both organic and inorganic growth, balancing near-term performance with longer-term value creation. Chemring's longer-term prospects remain strong.

Going concern

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

	2023	Covenant
Revolving credit facility and overdraft	£158m	
Undrawn committed borrowing facilities	£143m	
Leverage ratio	0.21x	Less than 3x
Interest cover ratio	30x	Greater than 4x

The revolving credit facility of £150m runs to December 2025, of which £130m has been extended to December 2026 with a "one-year" option to extend to December 2027 at the lenders' discretion. The $10m overdraft facility was increased to $20m in November 2023. The Group was in compliance with the covenants throughout the year.

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.

A detailed description of the Group's going concern and long-term viability assessment, together with sensitivity analysis, can be found on page 77 of the Group's 2023 annual report and accounts.

Principal risks and uncertainties

The principal risks and uncertainties which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results have not changed significantly from those set out in the Group's 2022 annual report and accounts and the 2023 interim report. A detailed description of the Group's principal risks and uncertainties and the ways they are mitigated can be found on pages 69 to 76 of the Group's 2023 annual report and accounts. In summary, the principal risks relate to:

- Occupational and process safety
- Environmental laws and regulations
- Climate change
- Market
- Political
- Contracts
- Technology
- Financial
- Operational
- People
- Cyber-security
- Compliance and corruption

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

RESPONSIBILITY STATEMENT OF THE DIRECTORS ON THE ANNUAL REPORT AND ACCOUNTS

The responsibility statement below has been prepared in connection with the Company's full annual report and accounts for the year ended 31 October 2023. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with 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
2. the strategic report and directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

This responsibility statement was approved by the Board of directors on 12 December 2023, and has been signed on its behalf by Michael Ord and Sarah Ellard.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 October 2023

	Note	2023 Underlying performance* £m	2023 Non-underlying items* £m	2023 Total £m	2022** Underlying performance* £m	2022** Non-underlying items* £m	2022** Total £m
Continuing operations							
Revenue	2	**472.6**	**-**	**472.6**	401.0	-	401.0
Operating profit	2	**69.2**	**(23.8)**	**45.4**	59.4	(10.0)	49.4
Finance expense		**(1.3)**	**-**	**(1.3)**	(1.5)	-	(1.5)
Profit before tax		**67.9**	**(23.8)**	**44.1**	57.9	(10.0)	47.9
Taxation		**(10.2)**	**3.8**	**(6.4)**	(4.6)	1.1	(3.5)
Profit after tax		**57.7**	**(20.0)**	**37.7**	53.3	(8.9)	44.4
Discontinued operations							
(Loss)/profit after tax from discontinued operations	4	**(0.9)**	**(31.4)**	**(32.3)**	3.5	(0.5)	3.0
Profit after tax		**56.8**	**(51.4)**	**5.4**	56.8	(9.4)	47.4
Earnings per ordinary share							
Continuing operations							
Basic	5	**20.5p**		**13.4p**	19.0p		15.8p
Diluted	5	**20.0p**		**13.1p**	18.5p		15.4p
Continuing operations and discontinued operations							
Basic	5	**20.2p**		**1.9p**	20.2p		16.9p
Diluted	5	**19.7p**		**1.9p**	19.7p		16.4p

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

*** 2022 comparative information has been re-presented due to a change in classification for discontinued operations. See note 4 for further details.*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 October 2023

	2023 £m	2022 £m
Profit after tax attributable to equity holders of the parent as reported	**5.4**	47.4
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of the defined benefit pension scheme	**(4.7)**	(2.3)
Movement on deferred tax relating to the pension scheme	**1.6**	0.8
	(3.1)	(1.5)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**(15.2)**	35.0
Tax on exchange differences on translation of foreign operations	**(1.1)**	(0.4)
	(16.3)	34.6
Total comprehensive (loss) / income attributable to equity holders of the parent	**(14.0)**	80.5

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 October 2023

	Share capital £m	Share premium account £m	Special capital reserve £m	Translation reserve £m	Retained Earnings £m	Total £m
At 1 November 2022	2.8	307.7	12.9	7.5	87.2	418.1
Profit after tax	-	-	-	-	5.4	5.4
Other comprehensive loss	-	-	-	(15.2)	(4.7)	(19.9)
Tax relating to components of other comprehensive loss	-	-	-	(1.1)	1.6	0.5
Total comprehensive (loss)/income	-	-	-	(16.3)	2.3	(14.0)
Ordinary shares issued	-	1.0	-	-	-	1.0
Purchase of own shares	-	-	-	-	(16.9)	(16.9)
Share-based payments (net of settlement)	-	-	-	-	7.6	7.6
Dividends paid	-	-	-	-	(17.3)	(17.3)
At 31 October 2023	**2.8**	**308.7**	**12.9**	**(8.8)**	**62.9**	**378.5**

	Share capital £m	Share premium account £m	Special capital reserve £m	Translation reserve £m	Retained Earnings £m	Total £m
At 1 November 2021	2.8	307.1	12.9	(27.1)	57.1	352.8
Profit after tax	-	-	-	-	47.4	47.4
Other comprehensive income/(loss)	-	-	-	35.0	(2.3)	32.7
Tax relating to components of other comprehensive income/(loss)	-	-	-	(0.4)	0.8	0.4
Total comprehensive income	-	-	-	34.6	45.9	80.5
Ordinary shares issued	-	0.6	-	-	-	0.6
Share-based payments (net of settlement)	-	-	-	-	5.6	5.6
Dividends paid	-	-	-	-	(14.4)	(14.4)
Purchase of own shares	-	-	-	-	(7.0)	(7.0)
At 31 October 2022	2.8	307.7	12.9	7.5	87.2	418.1

CONSOLIDATED BALANCE SHEET
as at 31 October 2023

		2023		2022
	£m	£m	£m	£m
Non-current assets				
Goodwill	**100.5**		118.1	
Development costs	**17.6**		34.6	
Other intangible assets	**9.6**		11.4	
Property, plant and equipment	**242.2**		231.3	
Retirement benefit surplus	**5.9**		11.2	
Deferred tax	**36.9**		32.3	
		412.7		438.9
Current assets				
Inventories	**101.7**		99.6	
Trade and other receivables	**74.8**		61.1	
Cash and cash equivalents	**6.4**		19.8	
Derivative financial instruments	**0.8**		0.7	
		183.7		181.2
Total assets		**596.4**		620.1
Current liabilities				
Lease liabilities	**(1.1)**		(1.8)	
Trade and other payables	**(124.0)**		(98.2)	
Provisions	**(5.6)**		(1.6)	
Current tax	**(8.2)**		(7.9)	
Derivative financial instruments	**(3.2)**		(4.2)	
		(142.1)		(113.7)
Non-current liabilities				
Borrowings	**(14.1)**		(20.9)	
Lease liabilities	**(5.5)**		(4.2)	
Provisions	**(12.0)**		(16.8)	
Deferred tax	**(43.8)**		(45.2)	
Derivative financial instruments	**(0.3)**		(1.1)	
Preference shares	**(0.1)**		(0.1)	
		(75.8)		(88.3)
Total liabilities		**(217.9)**		(202.0)
Net assets		**378.5**		418.1
Equity				
Share capital		**2.8**		2.8
Share premium account		**308.7**		307.7
Special capital reserve		**12.9**		12.9
Translation reserve		**(8.8)**		7.5
Retained earnings		**62.9**		87.2
Total equity		**378.5**		418.1

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 October 2023

	Note	2023 £m	2022** £m
Cash flows from operating activities			
Cash generated from continuing underlying operations	6	**80.0**	85.1
Cash impact of continuing non-underlying items		**(2.1)**	(1.1)
Cash (utilised in)/generated from discontinued underlying operations	6	**(0.8)**	5.0
Cash impact of discontinued non-underlying items		**(1.9)**	-
Cash flows from operating activities		**75.2**	89.0
Tax paid		**(9.3)**	(8.5)
Net cash inflow from operating activities		**65.9**	80.5
Cash flows from investing activities			
Purchases of intangible assets		**(1.5)**	(3.0)
Purchases of property, plant and equipment		**(32.7)**	(31.5)
Acquisition of subsidiary net of cash acquired		**(7.2)**	-
Short-term funding to defined benefit pension scheme		**2.0**	(2.0)
Proceeds on disposal of property, plant and equipment		**-**	6.0
Net cash outflow from investing activities		**(39.4)**	(30.5)
Cash flows from financing activities			
Dividends paid		**(17.3)**	(14.4)
Purchase of own shares		**(14.0)**	(7.0)
Net proceeds for transactions in own shares		**0.6**	0.1
Finance expense paid		**(0.7)**	(1.3)
Capitalised facility fees paid		**(0.3)**	-
Drawdown of borrowings		**60.1**	30.0
Repayments of borrowings		**(66.8)**	(41.0)
Payments of lease liabilities		**(1.8)**	(2.2)
Net cash outflow from financing activities		**(40.2)**	(35.8)
(Decrease)/increase in cash and cash equivalents		**(13.7)**	14.2
Cash and cash equivalents at beginning of the year*		**19.8**	5.4
Effect of foreign exchange rate changes		**0.3**	0.2
Cash and cash equivalents at end of the year		**6.4**	19.8

** Cash and cash equivalents of £5.4m at the beginning of 2022 includes a bank overdraft*

*** 2022 comparative information has been re-presented due to a change in classification for discontinued operations. See note 4 for further details.*

Notes

1. ACCOUNTS AND AUDITOR'S REPORT

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 October 2023 or 31 October 2022 but is derived from those accounts. Statutory accounts for 2022 have been delivered to the Registrar of Companies, and those for 2023 will be delivered following the Company's Annual General Meeting. The auditor has reported on these accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report, and did not contain any statements required under either section 498(2) or section 498(3) of the Companies Act 2006.

This announcement has been prepared on the basis of the accounting policies set out in the Company's financial statements for the year ended 31 October 2023.

Whilst the financial information included in this announcement has been computed in accordance with UK-adopted International Financial Reporting Standards ("UK-adopted IFRSs"), this announcement does not itself contain sufficient information to comply with UK-adopted IFRSs. The Company expects to post full financial statements that comply with UK-adopted IFRSs on its website on 12 December 2023 (see note 14 below).

Recent accounting developments

The following International Financial Reporting Committee ("IFRIC") interpretations, amendments to existing standards and new standards were adopted in the year ended 31 October 2023 but have not materially impacted the reported results or the financial position:

- Reference to the Conceptual Framework (Amendments to IFRS 3);
- Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16);
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37); and
- Annual Improvements to IFRS Standards 2018–2020.

2. SEGMENTAL ANALYSIS – CONTINUING OPERATIONS

Year ended 31 October 2023

	Sensors & Information	**Countermeasures & Energetics**	**Unallocated**	**Group**
	£m	**£m**	**£m**	**£m**
Revenue	**187.0**	**285.6**	**-**	**472.6**
Segment result before depreciation, amortisation and non-underlying items and discontinued operations	**38.5**	**65.5**	**(15.5)**	**88.5**
Depreciation	**(3.6)**	**(15.0)**	**-**	**(18.6)**
Amortisation	**(0.7)**	**-**	**-**	**(0.7)**
Segmental underlying operating profit	**34.2**	**50.5**	**(15.5)**	**69.2**
Amortisation of acquired intangibles	**(1.3)**	**(1.7)**	**-**	**(3.0)**
Non-underlying items	**(22.2)**	**-**	**1.4**	**(20.8)**
Segmental operating profit	**10.7**	**48.8**	**(14.1)**	**45.4**

Year ended 31 October 2022

	Sensors & Information	Countermeasures & Energetics	Unallocated	Group
	£m	£m	£m	£m
Revenue	120.5	280.5	-	401.0
Segment result before depreciation, amortisation and non-underlying items and discontinued operations	28.0	64.2	(14.9)	77.3
Depreciation	(2.6)	(15.1)	-	(17.7)
Amortisation	-	(0.2)	-	(0.2)
Segmental underlying operating profit	25.4	48.9	(14.9)	59.4
Amortisation of acquired intangibles	(1.8)	(2.1)	-	(3.9)
Non-underlying items	(1.2)	-	(4.9)	(6.1)
Segmental operating profit	22.4	46.8	(19.8)	49.4

3. ALTERNATIVE PERFORMANCE MEASURES

The principal alternative performance measures ("APMs") presented are the underlying measures of earnings which exclude exceptional items, gain or loss on the movement on the fair value of derivative financial instruments, and the amortisation of acquired intangibles. The directors believe that these APMs assist with the comparability of information between reporting periods. The term underlying is not defined under IFRS and may not be comparable with similarly titled measures used by other companies.

	2023 £m	2022 £m
Gain/(loss) on movements in the fair value of derivative financial instruments	**1.4**	(4.1)
Acquisition expenses	**(3.7)**	(2.0)
Impairment of Chemical Detection assets	**(18.5)**	-
Release of disposal provisions	**3.2**	-
Increase in legal and disposal provisions	**(3.2)**	-
Impact of non-underlying items on EBITDA	**(20.8)**	(6.1)
Intangible amortisation arising from business combinations	**(3.0)**	(3.9)
Impact of non-underlying items on profit before tax	**(23.8)**	(10.0)
Tax impact of non-underlying items	**3.8**	1.1
Impact of non-underlying items on continuing profit after tax	**(20.0)**	(8.9)
Non-underlying discontinued operations after tax	**(31.4)**	(0.5)
Impact of non-underlying items on profit after tax	**(51.4)**	(9.4)
Underlying profit after tax	**56.8**	56.8
Statutory profit after tax	**5.4**	47.4

Derivative financial instruments
Included in non-underlying items is a £1.4m gain (2022: £4.1m loss) on the movement in fair value of derivative financial instruments. This is excluded from underlying earnings to ensure the recognition of the gain or loss on the derivative matches the timing of the underlying transaction.

Acquisition expenses
Included in non-underlying items is £3.7m (2022: £2.0m) of acquisition related expenses. This includes £3.4m (2022: £1.0m) relating to deferred consideration contingent on continued employment of the former owners of Geollect and Cubica, 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 acquisitions. The remaining expense of £0.3m (2022: £1.0m) primarily includes professional fees incurred in relation to the Group's mergers and acquisitions activity during the year. The acquisition related 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.

Impairment of Chemical Detection assets
Included in non-underlying items is £18.5m (2022: £nil) of non-cash impairment expenses, of which £15.6m relates to capitalised development costs and £2.9m relates to other assets. After having undertaken a wider strategic review of the US Sensors business we have concluded that the prospect of securing a Program of Record in the Chemical Detection part of the business is no longer probable and therefore we have chosen to record a non-cash impairment of development costs and other related assets in our Chemical Detection line of business. The impairment 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 non-recurring asset impairments, these costs have been excluded from the underlying measures.

Legal and disposal provisions
£3.2m of provisions, where the original charge was treated as exceptional, were released in the year as the risk of economic outflow is no longer considered probable. Other legal and disposal provisions, which were originally treated as exceptional, were increased by £3.2m in the year as the value of liabilities was reassessed.

Amortisation of acquired intangibles
Included in non-underlying items is the amortisation charge arising from business combinations of £3.0m (2022: £3.9m). 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.

Tax
The tax impact of non-underlying items comprises a £3.8m tax credit (2022: £1.1m credit) on the above non-underlying items.

We present the underlying effective tax rate for the Group, excluding non-underlying items, that is comparable over time. This is the taxation expense for the Group, excluding any non-underlying tax charge or credit, as a percentage of underlying profit before taxation.

Net debt
A reconciliation and analysis of net debt is presented in notes 7 and 8. This APM allows management to monitor the indebtedness of the Group.

Discontinued operations
Further details on the results of discontinued operations are presented in note 4.

4. DISCONTINUED OPERATIONS

Following the US DoD's decision in 2022 to transition the HMDS Program of Record to sustainment earlier than they had previously indicated, we evaluated the potential sustainment program and determined that in the short to medium term there is insufficient DoD funding to make it economically viable for Chemring to continue to operate the business. The decision has therefore been taken that the explosive hazard detection ("EHD") business will not continue to operate and it has therefore been treated as a discontinued operation in 2023. Prior to the decision to discontinue the EHD business, it was presented as part of the Sensors & Information segment.

	2023	2022
	£m	£m
Revenue	**9.3**	41.8
Underlying operating (loss)/profit from discontinued operations	**(1.2)**	4.6
Tax on underlying operating (loss)/profit from discontinued operations	**0.3**	(1.1)
(Loss)/profit after tax from underlying discontinued operations	**(0.9)**	3.5
(Loss)/profit after tax is analysed as:		
Before non-underlying items	**(0.9)**	3.5
Non-underlying items	**(33.6)**	(0.7)
Tax on non-underlying items	**2.2**	0.2
	(31.4)	(0.5)
(Loss)/profit for the year from discontinued operations	**(32.3)**	3.0

In 2023 the non-underlying items include a non-cash impairment of £31.2m (of which £20.5m relates to the goodwill associated with the acquisition of the EHD business in 2009 and £10.7m relates to other assets), site rationalisation costs of £1.7m and the amortisation of acquired intangibles of £0.7m. Amortisation of acquired intangibles arising from business combinations is associated with acquisition costs under IFRS 3 *Business Combinations*. As such, these costs are not reflective of the underlying activities of the discontinued operations and therefore have been treated as non-underlying items. The impairment expenses and site rationalisation 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 non-recurring asset impairments or expenses, these costs have been excluded from the underlying measures.

In 2022 the non-underlying items were the amortisation of acquired intangibles of £0.7m.

The cash flows from discontinued operations are presented in note 6.

The comparative income statement and cash flow information has been re-presented on the basis of the classification of operations as discontinued:

	Underlying			Non-underlying		
	Reported 2022 £m	Adjustment £m	Re-presented 2022 £m	Reported 2022 £m	Adjustment £m	Re-presented 2022 £m
CONSOLIDATED INCOME STATEMENT						
Continuing operations						
Revenue	442.8	(41.8)	401.0	-	-	-
Operating profit	64.0	(4.6)	59.4	(10.7)	0.7	(10.0)
Finance expense	(1.5)	-	(1.5)	-	-	-
Profit before tax	62.5	(4.6)	57.9	(10.7)	0.7	(10.0)
Taxation	(5.7)	1.1	(4.6)	1.3	(0.2)	1.1
Profit after tax	56.8	(3.5)	53.3	(9.4)	0.5	(8.9)
Discontinued operations						
Profit after tax	-	3.5	3.5	-	(0.5)	(0.5)
Total profit after tax	**56.8**	**-**	**56.8**	**(9.4)**	**-**	**(9.4)**
CONSOLIDATED CASH FLOW STATEMENT						
Continuing operations						
Cash flows from operating activities	90.1	(5.0)	85.1	(1.1)	-	(1.1)
Discontinued operations						
Cash flows from operating activities	-	5.0	5.0	-	-	-
Total cash flows from operating activities	**90.1**	**-**	**90.1**	**(1.1)**	**-**	**(1.1)**

5. EARNINGS PER SHARE

Earnings per share is based on the average number of shares in issue, excluding own shares held, of 281,655,927 (2022: 280,506,245). Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 288,780,153 (2022: 288,218,004).

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

			2023			2022
	£m	**Basic EPS (Pence)**	**Diluted EPS (Pence)**	£m	Basic EPS (Pence)	Diluted EPS (Pence)
Underlying profit after tax	**57.7**	**20.5**	**20.0**	53.3	19.0	18.5
Non-underlying items	**(20.0)**			(8.9)		
Profit from continuing operations	**37.7**	**13.4**	**13.1**	44.4	15.8	15.4
(Loss)/profit from discontinued operations	**(32.3)**	**(11.5)**	**(11.2)**	3.0	1.1	1.0
Total profit after tax	**5.4**	**1.9**	**1.9**	47.4	16.9	16.4

6. CASH GENERATED FROM OPERATING ACTIVITIES

	2023 £m	2022 £m
Operating profit from continuing operations	**45.4**	49.4
Amortisation of development costs	**0.7**	0.1
Amortisation of intangible assets arising from business combinations	**3.0**	3.9
Amortisation of patents and licenses	**-**	0.1
Impairment of development costs	**15.6**	2.2
Profit on disposal of non-current assets	**-**	(1.9)
Depreciation of property, plant and equipment	**18.6**	17.7
Non-underlying items	**5.2**	6.1
Share-based payment expense	**4.4**	6.4
Operating cash flows before movements in working capital	**92.9**	84.0
Increase in inventories	**(18.2)**	(6.4)
(Increase)/decrease in trade and other receivables	**(18.7)**	4.5
Increase in trade and other payables	**23.7**	2.9
Increase in provisions	**0.3**	0.1
Operating cash flow from continuing underlying operations	**80.0**	85.1
Discontinued operations:		
Operating cash flow from discontinued underlying operations	**(0.8)**	5.0
Cash impact of non-underlying items from discontinued operations	**(1.9)**	-
Net cash (outflow)/inflow from discontinued operating activities	**(2.7)**	5.0
Net cash (outflow)/inflow from discontinued operations	**(2.7)**	5.0

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

	2023 £m	2022 £m
(Decrease)/increase in cash and cash equivalents	**(13.7)**	14.2
Decrease in debt and lease financing due to cash flows	**8.8**	13.2
(Increase)/decrease in net debt resulting from cash flows	**(4.9)**	27.4
Effect of foreign exchange rate changes	**0.3**	(4.2)
Acquired debt	**(0.1)**	-
New leases entered into, lease interest and other non-cash movements	**(2.1)**	(3.5)
Amortisation of debt finance costs	**(0.4)**	(0.3)
Movement in net debt	**(7.2)**	19.4
Net debt at beginning of the year	**(7.2)**	(26.6)
Net debt at end of the year	**(14.4)**	(7.2)

8. ANALYSIS OF NET DEBT

	As at 1 Nov 2022 £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	**As at 31 Oct 2023 £m**
Cash and cash equivalents (including bank overdraft)	19.8	(13.7)	-	0.3	**6.4**
Debt due after one year	(20.9)	7.0	(0.3)	0.1	**(14.1)**
Preference shares	(0.1)	-	-	-	**(0.1)**
	(1.2)	(6.7)	(0.3)	0.4	**(7.8)**
Lease liabilities	(6.0)	1.8	(2.3)	(0.1)	**(6.6)**
	(7.2)	(4.9)	(2.6)	0.3	**(14.4)**

The revolving credit facility of £150m runs to December 2025, of which £130m has been extended to December 2026 with a "one-year" option to extend to December 2027 at the lenders' discretion. The $10m overdraft facility was increased to $20m in November 2023.

The Group had £142.9m (2022: £136.7m) of undrawn borrowing facilities as at 31 October 2023.

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 and includes liabilities on foreign exchange forward contracts within its definition of net debt. Therefore the leverage ratio of 0.21 times differs to the ratio of 0.16 times that is disclosed elsewhere in this document, which is calculated using the closing rates of exchange and does not include liabilities on foreign exchange forward contracts within its definition of net debt. The Group was in compliance with the covenants throughout the year. The year end leverage ratio was 0.21 times (covenant limit of 3 times) and the year-end interest cover ratio was 30.01 times (covenant floor of 4 times).

9. DIVIDEND

At the Annual General Meeting on 15 March 2023 the shareholders approved a final dividend in respect of the year ended 31 October 2022 of 3.8p per ordinary share (year ended 31 October 2021: 3.2p). This was paid on 14 April 2023 to shareholders on the register on 24 March 2023 and totalled £10.8m (2022: £9.1m).

An interim dividend in respect of 2023 of 2.3p (2022: 1.9p) per ordinary share was paid on 8 September 2023 to shareholders on the register on 18 August 2023. The cash value of this dividend was £6.5m (2022: £5.3m).

The Board is recommending a final dividend in respect of the year to 31 October 2023 of 4.6p (2022: 3.8p) per ordinary share. The estimated cash value of this dividend is £12.9m. With the interim dividend of 2.3p per share (2022: 1.9p), this results in a total dividend of 6.9p (2022: 5.7p) per ordinary share. If approved, the final dividend will be paid on 12 April 2024 to shareholders on the register on 22 March 2024. In accordance with accounting standards, this final dividend has not been recorded as a liability as at 31 October 2023.

10. EXCHANGE RATES

The following exchange rates applied during the year:

	Average rate 2023	**Closing rate 2023**	Average rate 2022	Closing rate 2022
US dollar	**1.24**	**1.21**	1.23	1.15
AU dollar	**1.91**	**1.92**	1.75	1.80
Norwegian krone	**13.10**	**13.56**	11.82	11.97

For the year ended 31 October 2023 a 10% weakening of Sterling against the US dollar, AU dollar and Norwegian krone would have increased reported revenue by £22.0m (2022: £24.2m) and reported underlying operating profit by £3.3m (2022: £2.9m).

11. 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 matter remains open at year end:

On 10 August 2018, an incident occurred at our Countermeasures facility in Salisbury. The Group responded to support those who were injured and all related claims by employees have now been settled under our employers' liability insurance. We also fully supported the UK Health and Safety Executive ("HSE") with its investigation, which has been concluded. Whilst provisions have been recorded for costs that have been identified (included within "legal provisions"), it is possible that additional uninsured costs and financial penalties may be incurred as a result of the HSE investigation. At this stage these costs are not anticipated to be material in the context of the Group's financial statements.

12. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the year-end, on 28 November 2023 the trustees of the Group's legacy UK defined benefit scheme, the Chemring Group Staff Pension Scheme ("the Scheme"), entered into an agreement with an insurer, Pension Insurance Corporation ("PIC"), to purchase a bulk annuity insurance policy that operates as an investment asset. Such arrangements are commonly referred to as a "buy-in". The buy-in removes future risk associated with funding of the Scheme from the balance sheet, while ensuring the security of benefits for the Scheme members. The buy-in premium has initially been funded through the transfer of the majority of the Scheme's assets to PIC, as well as by an upfront contribution from the Group of approximately £1.6m. The upfront contribution from the Group will be funded from the Group's existing bank facilities.

The Scheme will now have protection against longevity risk and market risk for the material obligations of all deferred and pensioner members. As a result, the pension surplus, calculated on an IAS19 basis, included in the balance sheet at 31 October 2023 of £3.7m net of tax, is expected to be largely removed as the fair value of this insurance policy, held as an asset of the Scheme, will be set equal to the value of defined benefit obligations covered under IAS 19.

The legal responsibility for the Scheme will transfer through a subsequent "buy-out" transaction, expected to be completed in the next 12-24 months. On completion of the full buy-out of the scheme, the defined benefit assets and matching defined benefit liabilities will be derecognised from the Group balance sheet.

13. RELATED PARTY TRANSACTIONS

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

As at 31 October 2022, £2.0m was due from the Chemring Group Staff Pension Scheme representing a short-term loan to fund margin calls on liability driven investments which was repaid in November 2022. The amount receivable was classified in other receivables in the consolidated balance sheet.

14. 2023 ANNUAL REPORT AND ACCOUNTS

The annual report and accounts for the year ended 31 October 2023 will be posted on the Company's website, www.chemring.com, on 12 December 2023 and a copy will be posted to shareholders, as required, in advance of the Company's Annual General Meeting on 23 February 2024.