

13 DECEMBER 2022

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

RESULTS FOR THE YEAR ENDED 31 OCTOBER 2022

	As reported		<i>At 2021 exchange rates</i>		
	2022	Change	<i>2022</i>	<i>Change</i>	2021
Order intake (£m)	551.5	+28%	<i>523.1</i>	<i>+21%</i>	431.0
Revenue (£m)	442.8	+13%	<i>421.2</i>	<i>+7%</i>	393.3
Underlying EBITDA* (£m)	82.3	+8%	<i>79.9</i>	<i>+5%</i>	76.4
Underlying operating profit* (£m)	64.0	+11%	<i>62.2</i>	<i>+8%</i>	57.5
Underlying profit before tax* (£m)	62.5	+12%	<i>60.8</i>	<i>+9%</i>	55.9
Underlying basic earnings per share* (pence)	20.2	+20%	<i>19.7</i>	<i>+17%</i>	16.9
Statutory operating profit (£m)	53.3	+6%			50.4
Dividend per share (pence)	5.7	+19%			4.8
Net debt at 31 October (£m)	7.2	-73%	<i>3.9</i>	<i>-85%</i>	26.6
Order book at 31 October (£m)	650.9	+30%	<i>604.1</i>	<i>+21%</i>	500.8

Highlights

- FY22 performance exceeded the Board's initial expectations with strong performance in both sectors despite a challenging macro-economic environment
- Roke revenue exceeded £100m for the first time and with order intake of £168m, up 59%, is well positioned to continue its growth trajectory in what continues to be a buoyant market
- Post year-end acquisition of Geollect completed on 7 December 2022
- Order intake for Countermeasures & Energetics was £356m, up 40%, driven by multi-year orders received across the sector
- Investment in the Group's manufacturing infrastructure continues to be a key enabler to deliver improved safety and operational excellence, with the Countermeasures & Energetics margin improving from 16.2% to 17.4%
- The continued reduction in net debt by 73% to £7.2m was driven by strong operating cash generation and cash conversion of 109%. Net debt to underlying EBITDA of 0.1 times
- Proposed final dividend increased by 19% to 3.8p, giving a total dividend of 5.7p (3.5 times cover)
- Board's expectations for FY23 are unchanged. Approximately 86% (2021: 84%) of expected FY23 revenue is covered by the order book

Michael Ord, Group Chief Executive, commented:

"This has been another year of positive performance and growth across the Group, exceeding the Board's initial expectations despite a challenging macro-economic environment. I am delighted with the financial and operational progress that continues to be made across the Group as we build a stronger, higher quality and technology focused business.

"Our purpose at Chemring is to deliver innovative technologies and products that detect and defeat ever-changing threats and help make the world a safer place. This has never been as important as it is today given the fast changing geopolitical and technological backdrop. Our relentless focus on living our shared values of Safety, Excellence and Innovation is what powers this and I would like to thank all my colleagues across Chemring for their determination, hard work and support. Our continued progress would not be possible without their collective efforts.

“Trading since the start of the current financial year has been in line with expectations. With 86% of FY23 expected revenue covered by the order book, the Board’s expectations for FY23 performance are unchanged. Chemring is well placed, with a robust strategy, market-leading positions across different geographies and sectors, and with products and services that are critical to our government and blue-chip customers around the world. Chemring’s long-term prospects remain strong.”

Notes:

* All profit and earnings per share figures in this news release relate to underlying business performance (as defined below) unless otherwise stated.

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 improve the comparability of information between reporting periods as well as reflect the key performance indicators used within the business to measure performance. The term underlying is not defined under IFRS and may not be comparable with similarly titled measures used by other companies.

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

Group:	Underlying	Non-underlying	Statutory
EBITDA (£m)	82.3	(6.1)	76.2
Operating profit (£m)	64.0	(10.7)	53.3
Profit before tax (£m)	62.5	(10.7)	51.8
Tax charge (£m)	(5.7)	1.3	(4.4)
Profit after tax (£m)	56.8	(9.4)	47.4
Basic earnings per share (pence)	20.2	(3.3)	16.9
Diluted earnings per share (pence)	19.7	(3.3)	16.4
Segments:			
Sensors & Information EBITDA (£m)	33.0	(1.2)	31.8
Sensors & Information operating profit (£m)	30.0	(3.7)	26.3
Countermeasures & Energetics EBITDA (£m)	64.2	-	64.2
Countermeasures & Energetics operating profit (£m)	48.9	(2.1)	46.8

The adjustments comprise:

- amortisation of acquired intangibles of £4.6m (2021: £6.2m)
- costs relating to acquisitions of £2.0m (2021: £1.6m)
- loss on the movement in the fair value of derivative financial instruments of £4.1m (2021: £0.7m gain)
- tax impact of adjustments of £1.3m credit (2021: £1.0m credit)

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 2022 financial information at the 2021 exchange rates to reflect the movement excluding the impact of foreign exchange. The exchange rates applied are disclosed in note 9.

For further information:

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 2,300 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 13 December 2022.

Analyst meeting

An analyst meeting will take place at 08.30 (UK time) on Tuesday 13 December 2022 at the offices of Investec Bank plc, 30 Gresham St, London EC2V 7QP. To confirm attendance please contact MHP Communications: chemringplc@mhpgroup.com / +44 (0) 20 3128 8339.

Photography

Original high resolution photography is available to the media by contacting Catherine Chapman, MHP Communications: catherine.chapman@mhpgroup.com / tel: +44 (0) 20 3128 8339.

Group overview

Overall 2022 performance exceeded the Board's initial expectations with strong performance in both segments despite the continuing challenging macro-economic environment. The Group's reported revenue was up 13% to £442.8m (2021: £393.3m). Underlying operating profit was up 11% to £64.0m (2021: £57.5m), with operating margin flat at 14.5% (2021: 14.6%), as expected given the operating expense investment in Roke. Underlying basic earnings per share was up 20% to 20.2p (2021: 16.9p).

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

Foreign exchange translation has provided a tailwind to operating profit compared to last year. While exchange rates have been volatile in the year, the US dollar has strengthened with the average exchange rate to sterling decreasing from \$1.38 to \$1.23. 48% of the Group's revenue was US dollar denominated (2021: 53%). On a constant currency basis the Group's revenue was up 7% to £421.2m, underlying operating profit was up 8% to £62.2m and underlying basic earnings per share was up 17% to 19.7p. 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		
	2022	Change	2022	Change	2021
	£m		£m		£m
<i>Group</i>					
Order intake	523.1	+21%	551.5	+28%	431.0
Order book	604.1	+21%	650.9	+30%	500.8
Revenue	421.2	+7%	442.8	+13%	393.3
Underlying EBITDA	79.9	+5%	82.3	+8%	76.4
Underlying operating profit	62.2	+8%	64.0	+11%	57.5
Underlying basic earnings per share	19.7p	+17%	20.2p	+20%	16.9p
<i>Sensors & Information</i>					
Order intake	192.3	+9%	195.2	+11%	175.9
Order book	148.0	+30%	153.7	+35%	113.6
Revenue	157.8	+8%	162.3	+11%	146.6
Underlying EBITDA	32.8	-5%	33.0	-4%	34.4
Underlying operating profit	29.9	-5%	30.0	-5%	31.6
<i>Countermeasures & Energetics</i>					
Order intake	330.8	+30%	356.3	+40%	255.1
Order book	456.1	+18%	497.2	+28%	387.2
Revenue	263.4	+7%	280.5	+14%	246.7
Underlying EBITDA	61.7	+10%	64.2	+14%	56.1
Underlying operating profit	46.6	+17%	48.9	+22%	40.0

In the Sensors & Information sector, Roke revenue exceeded £100m for the first time and, in what continues to be a buoyant market, order intake of £168m was up 59%. We invested in Roke Academy and Roke USA which in the medium term enable Roke to continue its track record of strong growth.

In the US Sensors business there has been a positive start to the full rate production phase of the Enhanced Maritime Biological Detection System ("EMBD") program. A customer procurement decision is expected in 2023 on the low rate initial production ("LRIP") phase of the Joint Biological Tactical Detection System ("JBTD") and Aerosol and Vapor Chemical Agent Detector ("AVCAD") programs. The shift in the US

Government priorities from counter-insurgency operations to equipping forces for potential peer to peer/near-peer competition in the Pacific, has resulted in a swift and unexpected re-prioritisation of US DoD budgets. This impacted our expected Husky Mounted Detection System (“HMDS”) FY22 delivery order, which was not funded, and we are currently working with the customer to appropriately plan for their expected future requirements as we expect the program to move from production to sustainment earlier than anticipated.

In Countermeasures & Energetics, order intake was £356m, up 40%, driven by multi-year orders received across the sector. Investment in the Group’s manufacturing infrastructure continues to be a key enabler to deliver improved safety and operational excellence, resulting in Countermeasures & Energetics margin improving from 16.2% to 17.4%. The new Tennessee facility commissioned in the second half of the year is expected to deliver its first revenue in the first half of 2023. The market for precision engineered devices and specialty materials was strong, with order intake up 37% to £137m for these niche areas of our Countermeasures & Energetics sector.

Net debt was £7.2m at the end of the year (2021: £26.6m), the decrease since 31 October 2021 being largely attributable to strong operating cash generation offset by the investment in capital projects in the year. Strong underlying operating cash inflow of £90.1m (2021: £80.0m) represented 109% (2021: 105%) of EBITDA.

The Group’s order book at 31 October 2022 was £651m (2021: £501m), of which approximately £403m is scheduled for delivery during 2023, representing cover of approximately 86% (2021: 84%) of expected 2023 revenue. The increase since 31 October 2021 is primarily attributable to a 59% increase in Roke’s order intake, driven by a growing number of multi-year contracts which include an increasing element of “pass-through” products and services which are included in revenue.

Group Chief Executive’s review

Despite a challenging macro-economic environment, I am delighted with the financial and operational progress that continues to be made across the Group as we build a stronger, higher quality and technology focused business. We maintain our relentless focus on living our shared values of Safety, Excellence and Innovation, and in doing so we are driving our collective purpose: delivering innovative protective technologies to help make the world a safer place.

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

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

Environmental, Social and Governance (“ESG”)

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

From an ESG perspective 2022 has seen us make further progress as we proactively manage our sustainability agenda. Focus areas included health and safety, diversity and inclusion, climate change, and employee wellbeing. As a business we are committed to building a sustainable company of which all our stakeholders can be proud, both now and in the future.

Health and safety

Safety is our core value, with the health, safety and wellbeing of our colleagues, their families, our customers and the communities in which we operate being our priority. The successful implementation of our HSE strategy continues, as does our focus of achieving zero harm.

Our safety performance in terms of our Total Recordable Injury Frequency (“TRIF”) rate is currently at 0.78 which shows a slight increase when compared to last year’s 0.67 but still below our annual limit of 1. The nature of most injuries were either slips, trips and falls, or muscular skeletal type of events, and during 2022 there were no injuries in connection with or arising from energetic events.

We measure our overall HSE performance to reflect both occupational safety and process safety. In doing this we have multiple data points, one of which is an external independent review of our safety culture. This year saw the third review since 2018 by a team of specialist consultants from global subject matter experts, ERM. The review, which was based on progress made since 2018 and 2019, has highlighted good progress as we journey towards becoming a high reliability organisation.

In particular the review confirmed our businesses as approaching a Group-wide calculative status with robust processes and systems generating data and signals around our high hazard operations. The level of collaboration has also increased with many businesses sharing best practice on a regular basis to help accelerate our performance, all of which is supported by a positive tone from the top and underpinned by risk-informed, visible and proactive safety leadership.

Environment

A key challenge for the Group’s Sustainability Committee is to manage our ESG-related risks – balancing both the near and longer-term targets that were set in FY21, with the need to continually look for ways in which we can improve further.

In 2022 we developed our updated carbon reduction plans in all of our businesses and it is pleasing to report that we have achieved a 7.3% reduction in market-based scope 1 and scope 2 carbon emissions, from 20,684 tCO₂ e in 2021 to 19,175 tCO₂ e in 2022. When normalised for gross revenue, market-based scope 1 and 2 emissions reduced 18%, from 52.6 to 43.3 tCO₂ e per £m of revenue.

Reductions in emissions have been achieved across the businesses through initiatives such as the use of biofuels at our Roke and Salisbury sites; improved efficiency and maintenance of our steam systems in Scotland; and the use of renewable energy in Australia.

FY22 sees the Group report for the first time under the Task Force on Climate-related Financial Disclosures (“TCFD”). In addition, the Group has committed to further improve its non-mandatory disclosure and in July 2022 completed its first CDP submission. By translating the TCFD recommendations and pillars into actual disclosure questions and a standardised annual format, CDP provides investors and disclosers with a unique platform where the TCFD Framework can be brought into real-world practice in a comparable and consistent way.

As our disclosure increases, so has the need to ensure that the data that we report to the market is accurate. We have now put in place an auditable framework for our emissions reduction activities, with external subject matter experts appointed to verify the data and to report to the Group’s Audit Committee.

Culture

Chemring people are at the heart of our business. Engaged, motivated, empowered and appropriately skilled colleagues are integral to our success which is founded in the quality of our people. It is imperative that we are able to sustain an environment where we have the right people, in the right place, at the right

time, with the right skills working in a safe, healthy and inclusive environment. We continue to invest in our people at all levels across every location and function creating strong foundations for our future success.

Our investment in nurturing a culture built on our core values of Safety, Excellence and Innovation continued throughout 2022 and is firmly embedded in every part of the business. Our determined approach of Global Voice, Local Accent supports year on year progress and we continue to focus on developing an inclusive, respectful and diverse culture.

We will continue to focus throughout 2023 on developing an inclusive and dynamic work environment for all our colleagues in support of our business goals and to ensure that we continue to invest in our people.

Governance and ethics

In recent years significant effort has been placed on strengthening the governance and ethics across the Group, ensuring that we have the necessary policies and procedures in place to enable the business to operate with integrity and transparency, and to the highest ethical standards.

On 1 July 2022 we announced that we had been informed by the UK Serious Fraud Office (“SFO”) that they had closed their investigation into the activities of the Group, its subsidiary Chemring Technology Solutions Limited and associated persons. This investigation, which was announced on 18 January 2018, followed a voluntary report by the Group. Chemring co-operated fully with the SFO throughout its investigation and we are pleased that the matter is now closed, with no fines paid or payable.

Markets

Recent geopolitical and technology trends are rapidly reshaping many defence markets, with Russia’s invasion of Ukraine having a profound impact on defence spending and priorities, including likely accelerated NATO expansion.

Simultaneously with this new era of defence spending in Europe, the US is increasing its investment and action to strengthen its position towards an assertive China with its own extensive defence and military modernisation programmes.

The US

The US continues to represent the world’s largest defence market, and at US\$813bn President Biden’s 2022 national defence and security budget request is the largest ever. The US DoD’s element of this overall request is US\$773bn, with the additional US\$40bn being used to fund defence-related activities at the Department of Energy, the Federal Bureau of Investigation and other agencies.

The Indo-Pacific region is cemented as the priority theatre for the US DoD, with China representing the greatest military challenge. The US’s response to this challenge is seeing a major emphasis on preparing for peer to peer/near-peer competition in the region, with a consequent shift away from counter-insurgency doctrines and capabilities.

The UK

2021’s “Integrated Review of Security, Defence, Development and Foreign Policy”, and the accompanying “Defence Command Paper” and the “Defence and Security Industrial Strategy”, outline how national advantage through Science and Technology (“S&T”) is central to UK defence and security policy. For the four-year period from November 2020 to 2024 an additional £24.1bn has been allocated to Defence, with this allocation being part of a multi-year settlement to invest in pioneering technology in areas such as cyber, AI, data-science, Electronic Warfare (“EW”), uncrewed/autonomous systems and space.

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

Additionally, Russia’s invasion of Ukraine has fostered broad support for more long-term defence investment as part of adapting to a more competitive and riskier world.

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

The enhanced focus on S&T, AI, data science and autonomy as set out in the Integrated Review, with the creation of new military and security constructs that are data and intelligence driven, will enlarge the opportunity space for Roke to deploy its unrivalled capabilities to address these next-generation technology requirements. Lastly, as the sole-source supplier of countermeasures to the UK’s F-35 Lightning II fleet, Chemring is well placed to benefit from the UK MOD’s declared plans to increase the UK F-35 fleet size beyond the initial tranche of 48 aircraft already on order.

Europe

Russia’s invasion of Ukraine is driving a dramatic change in the European geostrategic landscape, with Sweden and Finland formally set to end decades of neutrality and join NATO. Joining NATO is also under debate in several other European countries that are presently outside the alliance.

Significant growth in European defence budgets is also being signalled, with countries looking to make increased capital investments to deter and protect their national interests. Seven European countries – Belgium, Germany, Italy, Norway, Poland, Romania and Sweden, have already announced their plans to increase defence budgets given the invasion, targeting at least the 2% GDP NATO threshold, and several other countries including Finland, Latvia and The Netherlands have indicated they will follow suit in the near term.

France has announced it will review its Loi de Programmation (“Programming Law”) owing to the changed geopolitical situation, and a new era of German foreign and security policy has been heralded with the creation of a special fund of €100bn to be spent on defence procurement and a commitment to allocate more than 2% of German GDP to defence.

The medium-term outlook for the European market is positive, and several opportunities for our niche capabilities can be anticipated. Against the new geostrategic backdrop, the Group will continue to support the requirements of European allied nations.

Australia

An enduring emphasis on future great power competition in the Indo-Pacific region is driving increased Australian defence spending with a focus on force readiness and capability modernisation. The Australia-United Kingdom-United States (“AUKUS”) trilateral security alliance of 2021 provides for cooperation in advanced cyber, AI, autonomy, quantum, undersea, hypersonic and counter-hypersonic, EW, innovation, and information sharing capabilities, and can make an important contribution to strengthening the region’s security and stability.

With Chemring having an industrial presence in all three AUKUS nations, the Group is well placed to respond to relevant opportunities resulting from the pact, as well as other bi-lateral and tri-lateral cooperation prospects.

Strategy

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

We will achieve this by continuing to focus our efforts and investment on those areas of the defence and security market where we see increasing customer budgets.

The Sensors & Information sector remains Chemring's principal area of focus for long-term growth reflecting increasing customer demand and one where we can capitalise on the opportunity presented by our customer's pivot towards the acquisition of high technology capabilities. We will expand the Group's product, service and capability offerings, constantly innovating to enable our customers to deliver competitive advantage and to defend their people, assets and information.

The Countermeasures & Energetics sector strategy is to strengthen and protect our niche, world-leading positions. We will seek to continuously improve our technological and operational base, and work closely with our customers in the development of new solutions to meet emerging needs. We will continue the process of modernisation and automation across our sites, improving our competitiveness through investment in lean manufacturing capabilities and operational alignment to share technology and manufacturing excellence across the Group.

We remain alert for opportunities to expand and accelerate our growth strategy through incremental acquisitions and by leveraging market adjacencies. However, any acquisition target must meet a strict set of criteria, enhance shareholder value and fit in with our wider growth plans. To date this activity has been principally focused around our Roke business and we are now considering additional opportunities in the US space and missiles sectors. Both areas, which play to the Group's high technology skillsets, offer significant opportunities for long-term growth.

Elsewhere we will continue to focus our efforts on building 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 in order to deliver further growth into the future.

Group financial performance

Order intake across the Group increased by 28% to £551m (2021: £431m), with a 59% increase in Roke's order intake, driven by a growing number of multi-year contracts which include an increasing element of "pass-through" products and services which are included in revenue. Countermeasures & Energetics order intake was £356m, up 40%, driven by multi-year orders received across the sector.

The impact of the Continuing Resolution in the US, and the continuation of CV-19 related working restrictions slowed the process of doing business with government departments, and as a result some orders were received later than expected which will adversely impact phasing of FY23.

Revenue for the year was up 13% to £442.8m (2021: £393.3m), driven by strong performance at Roke as well as steady growth in Countermeasures & Energetics.

The underlying operating profit of £64.0m (2021: £57.5m) resulted in an underlying operating margin of 14.5% (2021: 14.6%). As a result of the planned investment in Roke operating margin was flat compared to

2021 with the improved operational execution in Countermeasures & Energetics being offset by the discretionary operating expense investment in Roke Academy, Roke Futures and Roke USA.

Total finance expense fell to £1.5m (2021: £1.6m) which resulted in an underlying profit before tax of £62.5m (2021: £55.9m). The effective tax rate on the underlying profit before tax was 9.1% (2021: 14.8%). The underlying basic earnings per share was 20.2p (2021: 16.9p).

Foreign exchange translation has provided a tailwind to operating profit compared to last year. While exchange rates have been volatile in the year, the US dollar has strengthened with the average exchange rate to sterling decreasing from \$1.38 to \$1.23. 48% of the Group's revenue was US dollar denominated (2021: 53%). On a constant currency basis the Group's revenue was up 7% to £421.2m, underlying operating profit was up 8% to £62.2m and underlying basic earnings per share was up 17% to 19.7p.

Statutory operating profit was £53.3m (2021: £50.4m) and after statutory finance expenses of £1.5m (2021: £1.6m), statutory profit before tax was £51.8m (2021: £48.8m). The statutory tax charge totalled £4.4m (2021: £7.3m), giving statutory profit after tax of £47.4m (2021: £41.5m) and statutory basic earnings per share of 16.9p (2021: 14.7p).

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

Segmental review – Sensors & Information

Performance

Order intake in the year was up 11% to £195m (2021: £176m). This was driven by a 59% increase in Roke's order intake, with a growing number of multi-year contracts which include an increasing element of "pass-through" products and services which are included in revenue (see table below for an analysis of the impact of this), and the receipt of a US\$16m delivery order for the second year of EMBD full rate production. This was offset by orders on the HMDS Program of Record being significantly lower than in the previous year.

Roke "pass-through" impact	2022	2021	Change
	£m	£m	
<i>Order intake</i>			
Products and services	132	100	+32%
Pass-through	36	6	+500%
As reported	168	106	+59%
<i>Revenue</i>			
Products and services	94	75	+25%
Pass-through	16	7	+129%
As reported	110	82	+34%

Revenue for Sensors & Information increased by 11% to £162.3m (2021: £146.6m) and underlying operating profit fell by 5% to £30.0m (2021: £31.6m), as underlying operating profit margin declined to 18.5% (2021: 21.6%) driven by the operating expense investment in Roke Academy, Roke Futures and Roke USA, and the reduction in HMDS revenue in the year. On a constant currency basis revenue would have risen 8% to £157.8m and underlying operating profit would have fallen by 5% to £29.9m. The statutory operating profit for the year was £26.3m (2021: £25.9m).

In the UK, the markets for 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.

The acquisition of Geollect Limited which was completed in December 2022 having now received NSIA approval, creates further opportunities for Chemring to enhance and further accelerate growth in its Roke business. Geollect, based in Bristol and Virginia USA, is a data analytics company specializing in geospatial intelligence (“GEOINT”), one of the most exciting and growing areas of spacetechnology innovation. GEOINT uses imagery analysis and data to survey and assess human activity and physical geography anywhere in the world and has the potential to transform some of the most traditional and complex industries. With demand for open source intelligence (“OSINT”) and commercially curated intelligence growing at 25% CAGR, Roke’s customers require an exponential increase in capability to achieve digital advantage against complex threats. The Acquisition will enable Roke to build on its Intelligence as a Service (“Roke IaaS”) proposition by utilising the intelligence gathering and analysis capabilities of Geollect, and enhancing their already impressive processing capabilities with Roke’s innovative approach to AI, Machine Learning and Data Science.

In the last four 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 over 800 today, driven in part by the success of its graduate and apprenticeship schemes.

Building on this success, Roke invested £2.5m of annualised operating expenses in the launch of the Roke Academy, to address the challenge of recruiting appropriately skilled engineers in this competitive market. This unique offering will be a centre of excellence for learning and development and is designed to target the recruitment and development of undiscovered talent, and the enhancement of skillsets within the business. This is a significant step in Roke’s employee value proposition and will deliver a welcome increase in workforce diversity and longer term career progression. The first 24 recruits joined in July 2022.

In order to drive scalable growth and unlock future potential, Roke has combined its Public Sector, Industry and Cubica business units to create Roke Futures, which will sit alongside the National Security and Defence business units. In doing so it has brought together its market-leading skillset in Consulting, Intelligent Sensing, Situational Awareness and Autonomy. It will focus on building world-class capabilities and the development of new intellectual property and unique technologies in support of customers in UK Central Government & Law Enforcement, Aerospace, Digital Healthcare and Energy markets.

We are seeing growing customer enquiries for Roke’s suite of world-leading Electronic Warfare products. The business received an £8m order in November 2021 from the Swedish Ministry of Defence for the sale of EW equipment of which part was delivered in H2 2022. This illustrates the increasing importance of CEWA in today’s threat environment, heightened further as a consequence of Russia’s invasion of Ukraine.

Roke USA continues to support the customer with a view to securing further EW orders from this potentially significant market. We continue to invest in establishing our Roke USA business and have now established a sales and engineering office in the US, and hired staff with the required security clearance. This has required investment of £1.4m in 2022 which has been c.1 percentage point margin dilutive in the Sensors & Information sector. This investment has allowed us to support ongoing customer demonstrations and field trials. Customer feedback remains very positive albeit anticipated follow-on orders have been delayed as a result of budget restrictions caused by the Continuing Resolution.

Also in the US, our sensors business continued its strategic focus on building winning solutions to convert current US Programs of Record into low rate and full rate production, and on 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.

Chemring is also working with the US Department of Homeland Security Countering Weapons of Mass Destruction ("CWMD") Office to design, develop and deliver an aerosol bio-sensor that can detect, classify, and provide presumptive identification in real-time of pathogenic bio-threats in both indoor and outdoor environments. Chemring's technology dramatically shortens the time taken to identify the bio-threat, which is critical to rapidly implementing an effective response.

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

Following a delay in the placement of the annual delivery order, expected in the first half of the year, our US Sensors team actively engaged with the US DoD to gain a better understanding of short and medium-term demand for HMDS. Following withdrawal from Afghanistan, the US Army budget is realigning its budget priorities from a focus on counter-insurgency operations to the threat of peer to peer/near-peer competition. This pivot is driving a re-alignment of DoD funding priorities and our expectations are that the customer will extend the duration of the existing US\$200m Indefinite Delivery / Indefinite Quantity ("IDIQ") contract for an additional four years as the HMDS program transitions to sustainment mode. We continue to work with the customer to determine funding levels and timings moving forward.

The EMBD system, an automated sensor to rapidly detect, collect, identify and sample airborne biological warfare agents, has seen a positive start to its full rate production phase. The value of this sole source framework contract is up to US\$99m with an estimated completion date of December 2027. A further delivery order of US\$16m covering FY23 deliveries was received in the year.

The sole source JBTDS program is progressing as planned through the EMD phase and the next customer procurement decision is now expected in H1 FY23.

The AVCAD program is also progressing through its EMD phase. The next customer procurement decision point is still expected to be at the conclusion of the EMD phase, now expected to be in H1 FY23. Chemring remains one of two contractors currently selected for this competitive program.

Opportunities and outlook

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

In the UK, the national security and defence markets continue to grow with a focus on emerging technologies in connectivity, cyber, automation and data analytics. With increasing customer budgets and growing market opportunities Roke is a key enabler of our wider growth ambitions. Our vision for the next five years is to maintain Roke's recent record of growth, doubling annual revenue to greater than £200m organically, whilst maintaining strong margins. Roke will continue to focus its efforts on growing across all its business areas, delivering research, design, engineering and advisory services using its high quality people and capabilities.

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

Over the next two years we will see the US Sensors business transition from its primary focus being on the delivery of explosive hazard detection systems to one of biological detection reflecting the shift in the US Government priorities, from counter-insurgency operations to equipping forces for peer to peer/near-peer competition in the Pacific. In biological detection the EMBD program provides good short-term visibility and following the expected LRIP decision on JBTDS in 2023 we expect this program to enhance medium-

term visibility but first full rate production revenue is not expected until 2025. In chemical detection we still await the outcome of the competitive AVCAD program.

The order book for Sensors & Information at 31 October 2022 was £154m (2021: £114m) driven by strong order intake and an increase in multi-year contracts in Roke, offset by the reduction in HMDS orders in our US Sensors business. Of this, £112m is expected to be delivered in 2023, providing 67% cover of expected 2023 revenue. 2023 trading performance for Sensors & Information is expected to show a continuation of the levels of business seen in 2022, with continued growing demand for Roke's products and services, offset by the expected reduction in HMDS-related revenue. Medium-term growth opportunities 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 was higher at £356m (2021: £255m), driven by multi-year orders received across the sector.

Chemring Countermeasures USA ("CCM USA"), has been jointly awarded a US\$225m IDIQ five-year framework contract to manufacture MJU-61A/B infra-red countermeasures. Initial delivery orders of US\$38m were received in the year, and all work will be performed at CCM USA's new fully-automated manufacturing facility at Toone, Tennessee.

CCM USA's Pennsylvania facility received contracts totalling US\$36m to manufacture MJU-64/B, MJU-66/B and XM219 aircraft decoy flares. Chemring Countermeasures UK ("CCM UK") received a five-year contract valued at £34m to supply 55mm MTV air countermeasures to international customers.

Our three niche Energetics businesses, which design and manufacture high precision engineered devices and specialist materials, have also seen strong customer demand with order intake up 37% to £137m (2021: £100m), demonstrating the value our customers place on the high-reliability products provided by Chemring in the critical areas of space, aerospace, defence and industrial markets.

The impact of the Continuing Resolution in the US, which was not lifted until mid-March 2022, slowed the process of doing business with government departments. As a result some Countermeasures & Energetics orders that were expected in the first half were delayed until the second half of FY22. We expect this to result in an increase to the weighting of revenue in the second half of FY23.

The investment in the expansion and automation of our Tennessee facility to meet the expected demand for airborne countermeasures continued during the year. Having completed construction work of the buildings in FY21, FY22 saw the commissioning process progress through characterisation and testing as production gradually ramped up. We expect customer First Article Test units to be manufactured and shipped to the customer in the first half of FY23.

Revenue for Countermeasures & Energetics was up by 14% to £280.5m (2021: £246.7m). The sector reported an underlying operating profit of £48.9m (2021: £40.0m) as underlying operating margin increased to 17.4% (2021: 16.2%) driven by continued improved operational execution. On a constant currency basis revenue would have been up 7% to £263.4m and operating profit would have been up 17% to £46.6m. The statutory operating profit for the year was £46.8m (2021: £37.9m).

Opportunities and outlook

The focus for Countermeasures & Energetics remains on safeguarding and growing the Group's market-leading positions in niche markets, in particular on key platforms such as the F-35 as it begins to enter service in increasing numbers.

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

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. Our Chicago facility is well placed to benefit from growth in the space segment. Similarly, demand for high quality energetic materials has enabled Chemring Nobel in Norway to work proactively with its customer base on long-term contracting models, providing much improved visibility.

The Countermeasures & Energetics order book at 31 October 2022 was £497m (2021: £387m). The increase compared to the 2021 year end closing order book is largely attributable to the strong order intake across the sector where customers are increasingly placing multi-year orders. Foreign exchange has been a tailwind in the year and on a constant currency basis using the 2021 closing exchange rates the order book would be £456m. Of the 31 October 2022 order book, approximately £291m is currently expected to be delivered in 2023, representing 96% coverage of expected 2023 revenue.

Net debt and cash flow

The Group's net debt at 31 October 2022 was £7.2m (2021: £26.6m), representing a net debt to underlying EBITDA ratio of 0.09x (2021: 0.35x). 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 £90.1m (2021: £80.0m). Underlying cash conversion was 109% (2021: 105%) of underlying EBITDA, and an average of 108% on a rolling 36-month basis (2021: 107%). The Group has a revolving credit facility of £150m which runs to December 2025 and has an option to extend for a further two years at the lenders' discretion.

Working capital

Working capital was £93.9m (2021: £84.4m), an increase of £9.5m. At constant currency, working capital would have been £81.9m. As a percentage of revenue, working capital has remained consistent at 21% at 31 October 2022, and would have fallen to 19% at constant currency.

Given global supply chain challenges the Group invested in certain inventory items to mitigate the risk of shortages on production and delivery to customers. We continued with our focus on commercial contracting, inventory levels and cash management. Year end trade receivable days of 17 (2021: 25) and trade payable days of 18 (2021: 18) demonstrate that working capital has been managed in a balanced and sustainable manner.

Tax

The underlying tax charge totalled £5.7m (2021: £8.3m) on an underlying profit before tax of £62.5m (2021: £55.9m). The effective tax rate on underlying profit before tax for the year was a charge of 9.1% (2021: 14.8%).

The reduction in rate is due to the recognition of a deferred tax asset in respect of future US interest deductions of £4.3m. Looking forward into 2023 we expect the Group effective tax rate to return to the mid-teens as the change to the UK Corporation tax rate, effective 1 April 2023, will impact the annual current tax charge for 7 months. From FY24 we will see a full year effect and as such the Group effective tax rate is expected to increase to approximately 20%. The statutory tax charge totalled £4.4m (2021: £7.3m) on a statutory profit before tax of £51.8m (2021: £48.8m).

Retirement benefit obligations

The surplus on the Group's defined benefit pension schemes was £11.2m (2021: £13.7m), measured in accordance with IAS 19 (Revised) Employee Benefits. The surplus relates to the Chemring Group Staff Pension Scheme (the "Scheme"), a UK defined benefit scheme whose assets are held in a separately administered fund. The Scheme was closed to future accrual in April 2012. The surplus as a percentage of scheme liabilities increased from 15% to 19%, the increase being driven by the increase in the AA corporate bond yield used as the discount rate for IAS19. The resilience of the Scheme's investment strategy, which includes a liability driven investment hedge, was demonstrated by the limited impact of increased interest rate and inflation expectations. During the final quarter of the year the Scheme exited its portfolio of equity investments in anticipation of the need for liquid cash resources to meet the margin calls on the liability driven investments, as gilt yields rose rapidly in September 2022. The Group also lent the Scheme £2m on a short-term basis to cover further margin calls in October 2022, which was repaid in November 2022.

An updated triennial valuation was completed as at 6 April 2021 and showed a technical provisions surplus of £3.8m, which represented a funding level of 104% of liabilities. The Group agreed with the trustees that no further deficit recovery payments are required. The next actuarial valuation is due as at 6 April 2024 after which the future funding requirements will be reassessed.

Contingent liabilities

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

One matter remained open at year end, relating to the incident that occurred at the Group's countermeasures site in Salisbury on 10 August 2018. Full details are included in note 10.

Dividends

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

The Board is recommending a final dividend in respect of the year ended 31 October 2022 of 3.8p (2021: 3.2p) per ordinary share. With the interim dividend of 1.9p per share (2021: 1.6p), this results in a total dividend of 5.7p (2021: 4.8p) per share, an increase of 19% on the prior year.

If approved, the final dividend will be paid on 14 April 2023 to shareholders on the register on 24 March 2023. In accordance with accounting standards, this final dividend has not been recorded as a liability as at 31 October 2022.

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 2023 performance are unchanged, with the balance of its trading performance in 2023 expected to have a greater bias towards the second half of the financial year as a result of the delays to order intake in 2022 following the US Continuing Resolution.

The Group order book as at 31 October 2022 was £651m, of which £403m is currently expected to be recognised as revenue in 2023, giving excellent visibility for the full year.

Whilst there may be some macro-economic uncertainty surrounding the level and timing of defence spending, our focus remains on balancing short-term performance with long term growth and value creation.

Longer-term, our strategic imperatives are to:

- continue to grow our Roke business
- invest in new and adapt existing technologies to meet evolving customer requirements
- pursue new market opportunities with our Defence, Security and Industrial customers
- enhance organic growth opportunities with focused, strategy-led acquisitions to accelerate growth

Our multiple market-leading positions across different geographies and sectors, together with our investment in high technology niches and the Group's strong balance sheet, give the Board confidence in Chemring's longer-term prospects.

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

	2022	Covenant
Revolving credit facility and overdraft	£159m	
Undrawn committed borrowing facilities	£137m	
Leverage ratio	0.14x	Less than 3x
Interest cover ratio	57x	Greater than 4x

The revolving credit facility and overdraft run to December 2025 with two "one-year" options to extend at the lenders' discretion. The Group was in compliance with the covenants throughout the year.

Assessment of near-term prospects

As part of a regular assessment of the Group's working capital and financing position, the directors have prepared a detailed bottom-up two-year trading budget and cash flow forecast for the period through to October 2024. This has allowed the directors to assess going concern for a period of at least 12 months after the date of approval of the financial statements. This is in addition to the Group's longer-term strategic planning process. In assessing the forecast, the directors have considered:

- trading risks presented by the current economic conditions in the defence market, particularly in relation to government budgets and expenditure;
- the impact of macro-economic factors, particularly inflationary pressures, supply chain challenges, interest rates and foreign exchange rates;
- the status of the Group's existing financial arrangements and associated covenant requirements;
- progress made in developing and implementing cost reduction programmes and operational improvements;
- the availability of mitigating actions should business activities fall behind current expectations, including the deferral of discretionary overheads and restricting cash flows; and
- the long-term nature of the Group's business which, taken together with the Group's order book, provides a satisfactory level of confidence to the Board in respect of trading.

Sensitivity analysis

Additional detailed sensitivity analysis has been performed on the forecasts to consider the impact of severe, but plausible, reasonable worst case scenarios on the covenant requirements. These scenarios, which sensitised the forecasts for specific identified risks, modelled the reduction in anticipated levels of underlying EBITDA and the associated increase in net debt. These scenarios included significant delays to major contracts and considered the principal risks and uncertainties discussed in the strategic report. These sensitised scenarios show headroom on all covenant test dates for the foreseeable future.

In addition to the above, the directors continue to monitor developments with, and potential impact of, CV-19 in the short and medium term and are in particular focused on the key risks of delays by customers in testing and acceptance of products, disruption to production capacity and the impact of the current situation on the Group's supply chain. The CV-19 outbreak is not currently having any material impact in relation to these risks or any other potential impacts, however, the directors are monitoring the situation closely.

Confirmation of going concern

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

Long-term viability statement

The directors have assessed the Group's viability over a three-year period to October 2025 based on the above assessment, combined with the Group's strategic planning process, which gives greater certainty over the forecasting assumptions used. Based on this assessment, the directors have a reasonable expectation that the Group will be able to continue in operation and meet all its liabilities as they fall due up to October 2025.

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

Principal risks

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

Sensitivity analysis

Sensitivity analyses were run to model the financial and operational impact of plausible downside scenarios of these risk events occurring individually or in combination. These included the impacts of a further deterioration in the macro-economic environment, including how CV-19 may impact the economy and future government policy and spending, underperformance in executing the Group's strategy, failure to deliver operational improvements, the impact of a potential climate-related risk causing business interruption and material movements in foreign exchange rates.

Consideration was also given to the plausibility of the occurrence of other individual events that in their own right could have a material impact on the Group's viability.

Confirmation of viability

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

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 2021 annual report and accounts and the 2022 interim report. A detailed description of the Group's principal risks and uncertainties and the ways they are mitigated can be found on pages 66 to 73 of the Group's 2022 annual report and accounts. In summary, the principal risks relate to:

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

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

RESPONSIBILITY STATEMENT OF THE DIRECTORS ON THE ANNUAL REPORT AND ACCOUNTS

The responsibility statement below has been prepared in connection with the Company's full annual report and accounts for the year ended 31 October 2022. 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 13 December 2022, and has been signed on its behalf by Michael Ord and Sarah Ellard.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 October 2022

	2022			2021		
	Underlying performance* £m	Non-underlying items* £m	Total £m	Underlying performance* £m	Non-underlying items* £m	Total £m
Continuing operations						
Revenue	442.8	-	442.8	393.3	-	393.3
Operating profit	64.0	(10.7)	53.3	57.5	(7.1)	50.4
Finance expense	(1.5)	-	(1.5)	(1.6)	-	(1.6)
Profit before tax	62.5	(10.7)	51.8	55.9	(7.1)	48.8
Taxation	(5.7)	1.3	(4.4)	(8.3)	1.0	(7.3)
Profit after tax	56.8	(9.4)	47.4	47.6	(6.1)	41.5
Earnings per ordinary share						
Basic	20.2p		16.9p	16.9p		14.7p
Diluted	19.7p		16.4p	16.5p		14.4p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 October 2022

	2022	2021
	£m	£m
Profit after tax attributable to equity holders of the parent as reported	47.4	41.5
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of the defined benefit pension schemes	(2.3)	6.2
Movement on deferred tax relating to pension schemes	0.8	(2.2)
	(1.5)	4.0
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	35.0	(8.3)
Tax on exchange differences on translation of foreign operations	(0.4)	0.1
	34.6	(8.2)
Total comprehensive income attributable to equity holders of the parent	80.5	37.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 October 2022

	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	-	-	-	35.0	(2.3)	32.7
Tax relating to components of other comprehensive income	-	-	-	(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 shares by employee share ownership plan trust	-	-	-	-	(7.0)	(7.0)
At 31 October 2022	2.8	307.7	12.9	7.5	87.2	418.1

	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2020	2.8	306.7	12.9	1.0	(18.9)	28.0	(2.9)	329.6
Profit after tax	-	-	-	-	-	41.5	-	41.5
Other comprehensive (loss)/income	-	-	-	-	(8.3)	6.2	-	(2.1)
Tax relating to components of other comprehensive (loss)/income	-	-	-	-	0.1	(2.2)	-	(2.1)
Total comprehensive income/(loss)	-	-	-	-	(8.2)	45.5	-	37.3
Ordinary shares issued	-	0.4	-	-	-	-	-	0.4
Share-based payments (net of settlement)	-	-	-	-	-	4.5	-	4.5
Dividends paid	-	-	-	-	-	(11.9)	-	(11.9)
Purchase of shares by employee share ownership plan trust	-	-	-	-	-	(7.1)	-	(7.1)
Transactions in own shares	-	-	-	-	-	(2.9)	2.9	-
Transfer between reserves	-	-	-	(0.1)	-	0.1	-	-
At 31 October 2021	2.8	307.1	12.9	0.9	(27.1)	56.2	-	352.8

* Retained earnings as at 1 November 2021 includes £0.9m that was previously classified as a revaluation reserve. This balance has been amalgamated into the retained earnings balance from 1 November 2021 on the basis that it is immaterial.

CONSOLIDATED BALANCE SHEET

as at 31 October 2022

	2022	2021
£m	£m	£m
Non-current assets		
Goodwill	118.1	108.7
Development costs	34.6	30.0
Other intangible assets	11.4	14.1
Property, plant and equipment	231.3	198.7
Retirement benefit surplus	11.2	13.7
Deferred tax	32.3	18.2
	438.9	383.4
Current assets		
Inventories	99.6	80.7
Trade and other receivables	61.1	60.6
Cash and cash equivalents	19.8	5.8
Derivative financial instruments	0.7	1.0
	181.2	148.1
Total assets	620.1	531.5
Current liabilities		
Borrowings	-	(0.4)
Lease liabilities	(1.8)	(1.4)
Trade and other payables	(98.2)	(85.7)
Provisions	(1.6)	(2.6)
Current tax	(7.9)	(12.0)
Derivative financial instruments	(4.2)	(0.4)
	(113.7)	(102.5)
Non-current liabilities		
Borrowings	(20.9)	(28.1)
Lease liabilities	(4.2)	(2.4)
Provisions	(16.8)	(14.9)
Deferred tax	(45.2)	(30.7)
Derivative financial instruments	(1.1)	-
Preference shares	(0.1)	(0.1)
	(88.3)	(76.2)
Total liabilities	(202.0)	(178.7)
Net assets	418.1	352.8
Equity		
Share capital	2.8	2.8
Share premium account	307.7	307.1
Special capital reserve	12.9	12.9
Revaluation reserve	-	0.9
Translation reserve	7.5	(27.1)
Retained earnings	87.2	56.2
Total equity	418.1	352.8

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 October 2022

	2022 £m	2021 £m
Cash flows from operating activities		
Cash generated from continuing underlying operations	90.1	80.0
Cash impact of continuing non-underlying items	(1.1)	(1.3)
Cash impact of discontinued non-underlying items	-	(0.4)
Cash flows from operating activities	89.0	78.3
Tax paid	(8.5)	(2.6)
Net cash inflow from operating activities	80.5	75.7
Cash flows from investing activities		
Purchases of intangible assets	(3.0)	(2.2)
Purchases of property, plant and equipment	(31.5)	(28.0)
Acquisition of subsidiary net of cash acquired	-	(5.1)
Proceeds on disposal of subsidiary	-	0.4
Short-term funding to defined benefit pension scheme	(2.0)	-
Proceeds on disposal of property, plant and equipment	6.0	-
Net cash outflow from investing activities	(30.5)	(34.9)
Cash flows from financing activities		
Dividends paid	(14.4)	(11.9)
Purchase of own shares	(7.0)	(7.1)
Net proceeds for transactions in own shares	0.1	0.4
Finance expense paid	(1.3)	(2.6)
Capitalised facility fees paid	-	(1.1)
Drawdown of borrowings	30.0	29.2
Repayments of borrowings	(41.0)	(55.7)
Repayments of lease liabilities	(2.2)	(1.6)
Net cash outflow from financing activities	(35.8)	(50.4)
Increase/(decrease) in cash and cash equivalents	14.2	(9.6)
Cash and cash equivalents at beginning of the year (including bank overdraft)	5.4	14.7
Effect of foreign exchange rate changes	0.2	0.3
Cash and cash equivalents at end of the year (including bank overdraft)	19.8	5.4

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 2022 or 31 October 2021 but is derived from those accounts. Statutory accounts for 2021 have been delivered to the Registrar of Companies, and those for 2022 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 2022.

Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards ("IFRSs"), this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to post full financial statements that comply with IFRSs on its website on 13 December 2022 (see note 13 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 2022 but have not materially impacted the reported results or the financial position:

- Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16 *Leases*); and
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).

2. SEGMENTAL ANALYSIS

Year ended 31 October 2022

	Sensors & Information £m	Countermeasures & Energetics £m	Unallocated £m	Group £m
Revenue	162.3	280.5	-	442.8
Segment result before depreciation, amortisation and non-underlying items	33.0	64.2	(14.9)	82.3
Depreciation	(3.0)	(15.1)	-	(18.1)
Amortisation	-	(0.2)	-	(0.2)
Segmental underlying operating profit	30.0	48.9	(14.9)	64.0
Amortisation of acquired intangibles	(2.5)	(2.1)	-	(4.6)
Non-underlying items	(1.2)	-	(4.9)	(6.1)
Segmental operating profit	26.3	46.8	(19.8)	53.3

Year ended 31 October 2021

	Sensors & Information £m	Countermeasures & Energetics £m	Unallocated £m	Group £m
Revenue	146.6	246.7	-	393.3
Segment result before depreciation, amortisation and non-underlying items	34.4	56.1	(14.1)	76.4
Depreciation	(2.7)	(15.5)	-	(18.2)
Amortisation	(0.1)	(0.6)	-	(0.7)
Segmental underlying operating profit	31.6	40.0	(14.1)	57.5
Amortisation of acquired intangibles	(4.1)	(2.1)	-	(6.2)
Non-underlying items	(1.6)	-	0.7	(0.9)
Segmental operating profit	25.9	37.9	(13.4)	50.4

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 improve the comparability of information between reporting periods. The term underlying is not defined under IFRS and may not be comparable with similarly titled measures used by other companies.

	2022 £m	2021 £m
(Loss)/gain on movements in the fair value of derivative financial instruments	(4.1)	0.7
Acquisition expenses	(2.0)	(1.6)
Impact of non-underlying items on EBITDA	(6.1)	(0.9)
Intangible amortisation arising from business combinations	(4.6)	(6.2)
Impact of non-underlying items on profit before tax	(10.7)	(7.1)
Tax impact of non-underlying items	1.3	1.0
Impact of non-underlying items on profit after tax	(9.4)	(6.1)
Underlying profit after tax	56.8	47.6
Statutory profit after tax	47.4	41.5

Derivative financial instruments

Included in non-underlying items is a £4.1m loss (2021: £0.7m gain) on the movement in fair value of derivative financial instruments. This is excluded from underlying earnings to ensure the recognition of the gain or loss on the derivative matches the timing of the underlying transaction.

Acquisition expenses

Included in non-underlying items is £2.0m (2021: £1.6m) of acquisition expenses. This includes £1.0m (2021: £0.4m) relating to deferred consideration contingent on continued employment of the former owners of 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 an acquisition. The remaining expense of £1.0m (2021: £1.2m) primarily includes professional fees incurred in relation to the Group’s mergers and acquisitions activity during the year. The acquisition expenses are not reflective of the underlying costs of the Group and therefore, in order to provide an explanation of results that is not distorted by the costs of acquiring a business rather than organically developed, these costs have been excluded from the underlying measures.

Amortisation of acquired intangibles

Included in non-underlying items is the amortisation charge arising from business combinations of £4.6m (2021: £6.2m). 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

In the year ended 31 October 2022, the tax impact of non-underlying items comprises a £1.3m credit (2021: £1.0m credit) on the above non-underlying items.

4. EARNINGS PER SHARE

Earnings per share is based on the average number of shares in issue, excluding own shares held, of 280,506,245 (2021: 281,555,716). Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 288,218,004 (2021: 287,985,451).

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

	£m	Basic EPS (Pence)	2022 Diluted EPS (Pence)	£m	Basic EPS (Pence)	2021 Diluted EPS (Pence)
Underlying profit after tax	56.8	20.2	19.7	47.6	16.9	16.5
Non-underlying items	(9.4)			(6.1)		
Total profit after tax	47.4	16.9	16.4	41.5	14.7	14.4

5. CASH GENERATED FROM OPERATING ACTIVITIES

	2022 £m	2021 £m
Operating profit from continuing operations	53.3	50.4
Amortisation of development costs	0.1	0.6
Amortisation of intangible assets arising from business combinations	4.6	6.2
Amortisation of patents and licenses	0.1	0.1
Impairment of development costs	2.2	-
(Profit)/loss on disposal of non-current assets	(1.9)	0.1
Depreciation of property, plant and equipment	18.1	18.2
Non-cash movement of non-underlying items	6.1	0.9
Share-based payment expense	6.4	5.3
Operating cash flows before movements in working capital	89.0	81.8
(Increase)/decrease in inventories	(6.4)	7.9
Decrease in trade and other receivables	4.5	0.9
Increase/(decrease) in trade and other payables	2.9	(10.3)
Increase/(decrease) in provisions	0.1	(0.3)
Operating cash flow from continuing underlying operations	90.1	80.0
Discontinued operations:		
Cash impact of non-underlying items from discontinued operations	-	(0.4)
Net cash outflow from discontinued operating activities	-	(0.4)
Net cash inflow from discontinued investing activities	-	0.4
Net cash inflow from discontinued operations	-	-

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

	2022 £m	2021 £m
Increase/(decrease) in cash and cash equivalents	14.2	(9.6)
Decrease in debt and lease financing due to cash flows	13.2	29.2
Decrease in net debt resulting from cash flows	27.4	19.6
Effect of foreign exchange rate changes	(3.9)	2.7
New leases entered into, lease interest and other non-cash movements	(3.8)	(0.1)
Amortisation of debt finance costs	(0.3)	(0.6)
Movement in net debt	19.4	21.6
Net debt at beginning of the year	(26.6)	(48.2)
Net debt at end of the year	(7.2)	(26.6)

7. ANALYSIS OF NET DEBT

	As at 1 Nov 2021 £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	As at 31 Oct 2022 £m
Cash and cash equivalents (including bank overdraft)	5.4	14.2	-	0.2	19.8
Debt due after one year	(28.1)	11.0	(0.3)	(3.5)	(20.9)
Preference shares	(0.1)	-	-	-	(0.1)
	(22.8)	25.2	(0.3)	(3.3)	(1.2)
Lease liabilities	(3.8)	2.2	(3.8)	(0.6)	(6.0)
	(26.6)	27.4	(4.1)	(3.9)	(7.2)

The revolving credit facility is with a syndicate of six banks and was established in July 2021 and runs until December 2025 with two “one-year” options to extend.

The Group had £136.7m (2021: £128.1m) of undrawn borrowing facilities as at 31 October 2022.

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 0.14 times differs to the ratio of 0.09 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 0.14 times (covenant limit of 3 times) and the year-end interest cover ratio was 57 times (covenant floor of 4 times).

8. DIVIDEND

At the Annual General Meeting on 3 March 2022 the shareholders approved a final dividend in respect of the year ended 31 October 2021 of 3.2p per ordinary share (2021: 2.6p). This was paid on 31 March 2022 to shareholders on the register on 11 March 2022 and totalled £9.1m (2021: £7.4m).

An interim dividend in respect of 2022 of 1.9p (2021: 1.6p) per ordinary share was paid on 9 September 2022 to shareholders on the register on 19 August 2022. The cash value of this dividend was £5.3m (2021: £4.5m).

The Board is recommending a final dividend in respect of the year to 31 October 2022 of 3.8p (2021: 3.2p) per ordinary share. The estimated cash value of this dividend is £10.7m. With the interim dividend of 1.9p per share (2021: 1.6p), this results in a total dividend of 5.7p (2021: 4.8p) per ordinary share. If approved, the final dividend will be paid on 14 April 2023 to shareholders on the register on 24 March 2023. In accordance with accounting standards, this final dividend has not been recorded as a liability as at 31 October 2022.

9. EXCHANGE RATES

The following exchange rates applied during the year:

	Average rate 2022	Closing rate 2022	Average rate 2021	Closing rate 2021
US dollar	1.23	1.15	1.38	1.37
AU dollar	1.75	1.80	1.82	1.83

For the year ended 31 October 2022 a 10 cent strengthening in the US dollar exchange rate would have increased reported net debt by approximately £1.9m (2021: £2.6m) and underlying operating profit by £1.0m (2021: £2.8m).

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

11. EVENTS AFTER THE BALANCE SHEET DATE

ACQUISITION OF GEOLLECT

On 7 December 2022, Chemring Group PLC acquired 100% of the issued shares in Geollect Limited ("Geollect"). Geollect is an international provider of geospatial intelligence consultancy and subscription services. The acquisition has strong synergies to Roke and will expand the Group's existing capabilities and product offerings.

The acquisition has been completed for an initial cash consideration of £7.3m, funded from Chemring's existing bank facilities. Further deferred consideration of up to £7.5m is payable in Chemring 1p ordinary shares in two tranches (subject to the former owners remaining employed in the Chemring Group) on the second and third anniversary of completion.

Given the close proximity of the completion date of the transaction and the date of issuing the financial statements, the Group had not yet completed the accounting for the acquisition. The financial effects of this transaction have not been recognised at 31 October 2022. The operating results and assets and liabilities of the acquired company will be consolidated from 7 December 2022.

Based on unaudited accounts, in the 12 months to 31 October 2021, Geollect reported a loss before tax of £0.3m (2020: £0.3m) on revenue of £0.8m (2020: £0.7m). The gross assets of Geollect at 31 October 2021 were £0.4m (2020: £0.5m), and net assets at 31 October 2021 were £0.0m (2020: £0.1m). Costs in relation to this acquisition for the year ended 31 October 2022 have been classified as non-underlying costs in the statement of profit or loss and are included within the acquisition costs of £2.0m, see note 3.

A full provisional fair value exercise, completed in accordance with IFRS 3, is expected to be available for the Group's interim financial statements to 30 April 2023.

12. 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 has been classified in other receivables in the consolidated balance sheet.

13. 2022 ANNUAL REPORT AND ACCOUNTS

The annual report and accounts for the year ended 31 October 2022 will be posted on the Company's website, www.chemring.com, on 13 December 2022 and a copy will be posted to shareholders, as required, in advance of the Company's Annual General Meeting on 15 March 2023.