08 JUNE 2022

CHEMRING GROUP PLC

("Chemring" or "the Group" or "the Company")

INTERIM RESULTS FOR THE SIX MONTHS TO 30 APRIL 2022

	As reported		*At H1 2021 exchange rates*		
	H1 2022	***Change***	*H1 2022*	*Change*	H1 2021
Revenue (£m)	**220.4**	**+11%**	*214.1*	*+8%*	198.5
Underlying EBITDA*(£m)	**42.8**	**+14%**	*41.6*	*+11%*	37.6
Underlying operating profit* (£m)	**33.5**	**+19%**	*32.5*	*+16%*	28.1
Underlying profit before tax* (£m)	**33.1**	**+22%**	*32.1*	*+18%*	27.2
Underlying basic earnings per share* (pence)	**10.8**	**+27%**	*10.4*	*+22%*	8.5
Statutory operating profit (£m)	**29.3**	**+16%**	*28.4*	*+13%*	25.2
Interim dividend per share (pence)	**1.9**	**+19%**	*1.9*	*+19%*	1.6
Net debt at 30 April (£m)	**18.5**	**-52%**	*17.2*	*-56%*	38.7

Highlights

- H1 2022 performance was in line with the Board's expectations with strong performance in both segments
- Roke continued the recent trend of double digit growth in orders, revenue and operating profit in a positive market
- Sensors & Information underlying operating margin increased from 20.6% to 21.5% driven by the growth in the higher margin Roke business
- Countermeasures & Energetics underlying operating margin increased from 15.6% to 16.4% due to improved operational execution across the segment
- Continued reduction in net debt with strong operating cash generation and cash conversion of 101% (H1 2021: 96%). Net debt to underlying EBITDA of 0.23 times (H1 2021: 0.5 times)
- Continued scheduled capital expenditure ahead of depreciation. Investment in the Group's manufacturing infrastructure continues to be a key enabler to deliver improved safety and operational excellence. Total recordable injury frequency ("TRIF") rate was up slightly at 0.76 (H1 2021: 0.66)
- Proposed interim dividend increased by 19% to 1.9p, as we progress towards our medium-term target of dividend cover of c.2.5 times underlying EPS
- The Board's expectations for 2022 are unchanged. Approximately 85% (H1 2021: 92%) of expected H2 revenue is in the order book as at 30 April 2022 or has been delivered to date. Utility inflation, discretionary investment in Roke in H2 and adverse US order timing are expected to offset current FX tailwinds and an expected improved H1 weighting in 2022

Michael Ord, Chemring Group Chief Executive, commented:

"This has been a further period of strong operational and financial performance across the Group, with both sectors performing in line with our expectations. Our focus on building a stronger, higher quality and more resilient business has enabled us to negotiate numerous challenges including delays to customer procurement cycles, supply chain interruption, increased utility expenses and labour availability. Despite these challenges and the choice to invest in Roke in the second half ahead of the revenue curve, the Group remains on course to maintain its delivery of sustainable performance and growth. With strong order cover for the full year, the Board's expectations remain unchanged.

"Current geo-political uncertainty, brought about by Russia's invasion of Ukraine, has highlighted the need for increased defence expenditure, particularly amongst European members of NATO. More broadly it has highlighted the need for countries to re-equip and modernise their defence capabilities to meet the threat of peer on peer conflict. Against this background, and with market-leading innovative technologies and services that are critical to our customers, I am confident that Chemring will continue to deliver both organic and inorganic growth, balancing near-term performance with long-term value creation."

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 discontinued operations, 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 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.

EBITDA is defined as operating profit before interest, tax, depreciation and amortisation. Reference to constant currency relates to the re-translation of H1 2022 financial information at the H1 2021 exchange rates to reflect the movement excluding the impact of foreign exchange. The exchange rates applied are disclosed in note 12.

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

Group:	**Underlying**	**Non-underlying**	**Statutory**
EBITDA (£m)	42.8	(2.1)	40.7
Operating profit (£m)	33.5	(4.2)	29.3
Profit before tax (£m)	33.1	(4.2)	28.9
Tax charge on profit (£m)	(2.9)	0.5	(2.4)
Profit after tax (£m)	30.2	(3.7)	26.5
Basic earnings per share (pence)	10.8		9.5
Diluted earnings per share (pence)	10.5		9.2
Segments:			
Sensors & Information EBITDA (£m)	20.7	(0.5)	20.2
Sensors & Information operating profit (£m)	19.4	(1.6)	17.8
Countermeasures & Energetics EBITDA (£m)	29.3	-	29.3
Countermeasures & Energetics operating profit (£m)	21.3	(1.0)	20.3

The non-underlying adjustments comprise:

- amortisation of acquired intangibles of £2.1m (H1 2021: £3.7m, 2021: £6.2m)
- loss on the movement in the fair value of derivative financial instruments of £1.6m (H1 2021: £0.8m gain, 2021: £0.7m gain)
- acquisition expenses of £0.5m (H1 2021: £nil, 2021: £1.6m)
- tax impact of adjustments of £0.5m credit (H1 2021: £0.4m credit, 2021: £1.0m credit)

Further details are provided in note 3.

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 2,300 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 Wednesday 8 June 2022.

Analyst meeting

An analyst meeting will take place at 08.30 (UK time) on Wednesday 8 June 2022 at the offices of Investec Bank plc, 30 Gresham St, London EC2V 7QP. To confirm attendance please contact MHP Communications: chemringplc@mhpc.com / tel: +44 (0) 20 3128 8826.

Photography

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

INTERIM MANAGEMENT REPORT

Group overview

The Group has recorded a good first half performance. Revenue was up 11% to £220.4m (H1 2021: £198.5m, 2021: £393.3m) and underlying operating profit was up 19% to £33.5m (H1 2021: £28.1m, 2021: £57.5m). Underlying earnings per share was up 27% to 10.8p (H1 2021: 8.5p, 2021: 16.9p).

The Board's expectations for 2022 remain unchanged. Approximately 85% (H1 2021: 92%) of expected H2 revenue is in the order book as at 30 April 2022 or has been delivered to date. Utility inflation, discretionary investment in Roke in H2 and adverse US order timing are expected to offset current FX tailwinds and an expected improved H1 weighting in 2022.

The US dollar has strengthened in the period with the average exchange rate to GBP decreasing from $1.39 to $1.31, resulting in a slight tailwind. In the first half, 50% of the Group's revenue was US dollar denominated (H1 2021: 54%, 2021: 53%). On a constant currency basis the Group's revenue was up 8% to £214.1m, underlying operating profit was up 16% to £32.5m and underlying earnings per share was up 22% to 10.4p. A summary of the impact of the exchange rate movements on the key metrics at a Group and segmental level is shown in the table below.

	At constant currency		*As reported*		
	H1 2022 £m	***Change***	*H1 2022 £m*	*Change*	H1 2021 £m
Group					
Revenue	**214.1**	**8%**	*220.4*	*11%*	*198.5*
Underlying EBITDA	**41.6**	**11%**	*42.8*	*14%*	*37.6*
Underlying operating profit	**32.5**	**16%**	*33.5*	*19%*	*28.1*
Sensors & Information					
Revenue	**88.2**	**19%**	*90.2*	*21%*	*74.4*
Underlying EBITDA	**20.2**	**22%**	*20.7*	*25%*	*16.6*
Underlying operating profit	**19.0**	**24%**	*19.4*	*27%*	*15.3*
Countermeasures & Energetics					
Revenue	**125.9**	**1%**	*130.2*	*5%*	*124.1*
Underlying EBITDA	**28.5**	**4%**	*29.3*	*7%*	*27.5*
Underlying operating profit	**20.6**	**7%**	*21.3*	*10%*	*19.3*

In the Sensors & Information segment, Roke has again recorded double digit growth in orders, revenue and operating profit, with the market continuing to be positive. Roke received its first order for the new Electronic Warfare product, Perceive, from the Swedish MOD which is expected to be partially delivered later this year. In addition, there has been continued progress on the US Sensors Programs of Record with further deliveries of the Husky Mounted Detection System ("HMDS") Indefinite Delivery / Indefinite Quantity ("IDIQ") contract. There has been a positive start to the full rate production phase of the Enhanced Maritime Biological Detection System ("EMBD") program in the US Sensors business and continued progress on the engineering and manufacturing development ("EMD") phase of the Joint Biological Tactical Detection System ("JBTDS") and Aerosol and Vapor Chemical Agent Detector program ("AVCAD").

Countermeasures & Energetics has seen a continued improvement in operating margin, as the benefit of capital investment has delivered improved operational tempo and efficiency. The capacity expansion project in Tennessee continued to progress, moving into the plant commissioning phase in the second quarter, with first revenue expected in the final quarter of this year.

Net debt was £18.5m at the end of the period (H1 2021: £38.7m, 2021: £26.6m). The high level of capital expenditure has been funded by continued strong operating cash generation. Underlying operating cash inflow of £43.3m (H1 2021: £36.1m, 2021: £80.0m) represented 101% (H1 2021: 96%, 2021: 105%) of underlying EBITDA. Our three year rolling average cash conversion has been 106%, showing the ongoing focus on working capital improvements is delivering long-term, sustainable positive results.

The impact of the continuing resolution in the US, which was still in place until mid March, resulted in some order delays in both segments, which are now expected to be received in the second half of the year.

The Group's order book at 30 April 2022 was £488m (H1 2021: £450m, 2021: £501m), with £21m of the increase compared to H1 2021 being attributable to foreign exchange. Approximately £188m of the order book is scheduled for delivery during the second half of 2022. This represents cover of approximately 85% of expected second half revenue. This leaves £300m of order book to be delivered in FY23 and beyond. At this stage, this provides approximately 66% cover of expected FY23 Countermeasures & Energetics revenue and 31% cover of expected FY23 Sensors & Information revenue, with approximately £59m then to be delivered in FY24, largely in Countermeasures & Energetics.

Markets

Russia's invasion of Ukraine arguably marks the end of the post-Cold War, multipolar, rules-based international order, and is likely to have a long-term catalytic effect on defence and security spend as countries look to deter aggression and protect their international interests. Given the threat environment, several European countries (NATO and non-NATO members) have already committed to increasing their defence spend, and in the medium- to long-term this can be expected to strengthen demand for the Group's capabilities. Partnerships and alliances, such as Five Eyes, AUKUS, and NATO, are seen as becoming increasingly important, with greater cooperation and alignment between allies to the fore.

The US continues to be the largest defence and security market in the world and remains opportunity-rich for the Sensors & Information sector. The US$813bn FY23 President's Budget Request for the US Department of Defense ("US DoD") is the largest ever and has a strong modernisation agenda including investment priorities for cyber, space, hypersonics and advanced weapons, electronic warfare (EW) and chem/bio security. Chemring's capabilities should give us the opportunity to address many of these requirements. Three additional countries, Canada, Finland and Germany, have announced their intent to acquire the F-35 stealth multirole combat aircraft, a franchise US defence programme. As a provider of countermeasures for this platform, these programmes will contribute to us maintaining our market-leading position in the addressable air countermeasures market.

In the UK, the fundamentals of our market position are underpinned by the 2021 Integrated Review of Defence, Security and Foreign Policy ("IR") and the subsequent raft of policy papers that were published in support. The IR took a comprehensive view of the peer-level threats to British interests so its wholescale refresh is unlikely despite the Russia-Ukraine crisis. To counter peer-level adversaries and other threats the future UK market environment will be characterised by both the "industrial age of platforms" and the "information age of systems". Chemring's balanced portfolio with differentiated capabilities in Countermeasures & Energetics and Sensors & Information should enable us to benefit from both these elements of demand. For the latter, the increased importance that the UK is placing on cyber security, active cyber effects, information advantage, intelligent networks, artificial intelligence, machine learning, and multi-domain integration, when matched with increasing budgets, would accelerate the demand for Roke's market-leading technologies.

Several European countries (both NATO and non-NATO members) have already committed to increasing their defence spend, and more can be expected to soon follow suit. The budget increase, from the first seven countries who have already declared their intent, totals in excess of US$130bn, with a large proportion of funds allocated towards capital investment. Chemring has the opportunity to benefit from elements of the ensuing demand.

Whilst the outlook for the global defence market is increasingly positive, with strong growth predicted over the next decade, the customary time-lag between announcement and budget increases translating into new orders can be expected as governments take time to reposition and reallocate funding in response to the changed threat environment.

Environmental, Social and Governance

At Chemring we acknowledge our responsibility to contribute to a sustainable future. We have a strong and recognised obligation to ensure the responsible operation of our business and are fully committed to being a socially and environmentally responsible organisation.

During the first half of FY22 we have built on the good progress made during FY21 as we manage our sustainability agenda, and in particular our environmental, social and governance ("ESG") related risks.

A key focus for the Group's Sustainability Committee has been to ensure that we not only actively manage our sustainability agenda in order to meet the near and longer-term targets that were set in FY21, but that we continually look for ways in which we can improve further.

FY22 will see 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 by completing the submission on the Climate Disclosure Platform ("CDP") by the end of July 2022. 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.

Chemring is committed to ensuring that we are able to attract and develop an appropriately diverse workforce. Our programme of education for all senior leaders continued in the first half of FY22 and was complemented by a suite of diversity, equity and inclusion ("DE&I") training modules which form part of all development programmes from Early Careers to Senior Leadership Team development. With a specific focus on gender diversity, the global Women at Chemring committee has been established to encourage local women's networks in each business unit alongside delivering a global day for Women at Chemring in the second half of the year.

More generally, the importance of defence in sustaining peace and democracy has been more appreciated since the beginning of the crisis in Ukraine.

Health, safety and environment

Safety remains one of our core values within Chemring. A key part of our Health, Safety & Environmental ("HSE") strategy is the consolidation and analysis of data at every level to focus on the underlying causes of incidents. This will facilitate appropriate decision making at all levels of our organisation.

Through the use of enhanced risk assessment techniques, supported by the roll out of common asset integrity and electro-static discharge review programmes, we continue to focus on the control of residual risks within our high hazard processes.

In addition, we have extended our current data platform to better assess the environmental impacts of our operations enabling targets to be set in support of our wider ESG commitment. Whilst consolidating in a calculative culture we are also keen to ensure learning is transferred to the relevant parts of the organisation accelerating our continuous improvement cycle. To date good progress has been maintained on our journey to become a proactive organisation.

Health – 2022 has seen a continued focus on COVID-19 ("CV-19") with the Crisis Management Team meeting regularly to monitor the situation. To ensure we adhere to the required in-country standards, Chemring has remained agile in its response through the implementation of its CV-19 playbook. Chemring continues to work to Government guidelines relaxing restrictions accordingly.

Safety – The successful implementation of our HSE strategy continues, as does our focus of achieving zero harm. Our safety performance in terms of recordable injury rates (Total Recordable Injury Frequency Rate) is currently at 0.76 which shows a shows a slight increase when compared to last year's 0.66 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.

Cultural change – Safety and our goal of zero harm remains one of our core values which will ultimately be achieved through establishing and embedding a proactive culture. So far this year we have focused on consolidating and understanding our data sets enabling Chemring to become a learning organisation through shared and embedded learning associated with the control and interaction of people, plant and process.

Financial performance and position

Group financial performance

Order intake for H1 2022 was down 2% to £186m (H1 2021: £190m, 2021: £431m). Order intake across the Group outside of the US has remained robust, led by Roke which saw another period of double digit growth in order intake, which included an £8m order from the Swedish MOD for our new electronic warfare product.

The impact of the continuing resolution in the US, and the continuation of CV-19 working restrictions has slowed the process of doing business with government departments, and as a result some orders expected in the second quarter have been delayed. Given the level of order book coverage of second half revenue, this is not expected to impact FY22 results, but may adversely impact the first half/second half phasing in FY23.

Revenue for the period was up 11% to £220.4m (H1 2021: £198.5m, 2021: £393.3m), driven by strong performance in the Sensors & Information segment. As expected, revenue in Countermeasures & Energetics remained at a stable level.

The underlying operating profit of £33.5m (H1 2021: £28.1m, 2021 £57.5m) resulted in an underlying operating margin of 15.2% (H1 2021: 14.2%, 2021: 14.6%). The improved margin compared to H1 2021 primarily reflects the growth of the higher margin Sensors & Information segment, particularly Roke, and the continued focus on improved operational execution throughout the Group.

Foreign exchange translation has provided a slight tailwind to operating profit compared to the same period last year. While exchange rates have been volatile in the period, there has been a strengthening of the US dollar against Sterling compared to the equivalent period in 2021 with the average rate moving from $1.39 to $1.31. On a constant currency basis, restating the current period at the H1 2021 average rate, order book would have risen by 4% to £467m, order intake would have fallen 4% to £183m, revenue would have risen 8% to £214.1m and underlying operating profit would have risen 16% to £32.5m.

Total finance expense was lower at £0.4m (H1 2021: £0.9m, 2021: £1.6m). This was achieved by the continued focus on the efficient management of working capital and lower levels of net debt throughout the period.

Underlying profit before tax was £33.1m (H1 2021: £27.2m, 2021: £55.9m). The effective tax rate on the underlying profit before tax was 8.8% (H1 2021: 12.1%, 2021: 14.8%). The decrease in rate for HY 2022 was driven by the recognition of a deferred tax asset in respect of future US interest deductions that were previously unrecognised. The underlying earnings per share was 10.8p (H1 2021: 8.5p, 2021: 16.9p).

Underlying operating activities generated cash of £43.3m (H1 2021: £36.1m, 2021: £80.0m). Cash conversion was 101% (H1 2021: 96%, 2021: 105%) of underlying EBITDA. Our three year rolling average cash conversion has been 106%, showing the ongoing focus on working capital improvements is delivering long-term, sustainable positive results.

Statutory operating profit was £29.3m (H1 2021: £25.2m, 2021: £50.4m) and after statutory finance expenses of £0.4m (H1 2021 £0.9m, 2021: £1.6m), statutory profit before tax was £28.9m (H1 2021: £24.3m, 2021: £48.8m) giving a statutory earnings per share of 9.5p (H1 2021: 7.6p, 2021: 14.7p). The statutory profit after tax is £26.5m (H1 2021: £21.4m, 2021: £41.5m). The impact of non-underlying items on statutory profit measures is provided in note 3. The non-underlying costs in H1 2022 related to the amortisation of acquired intangibles, costs relating to acquisitions, losses 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 period fell by 26% to £74m (H1 2021: £100m, 2021: £176m). This was driven by a timing difference in our US Sensors business as the continuing resolution in the US caused the annual HMDS delivery order to be delayed into H2, offset by a strong period at Roke, which again saw double digit growth in orders, and the receipt of a $16m delivery order for the second year of EMBD full rate production.

Revenue for Sensors & Information increased by 21% to £90.2m (H1 2021: £74.4m, 2021: £146.6m) and underlying operating profit increased by 27% to £19.4m (H1 2021: £15.3m, 2021: £31.6m), as underlying operating margin improved to 21.5% (H1 2021: 20.6%, 2021: 21.6%).

In the UK, the markets for EW, cyber security and data science capabilities, in which Roke is a leading participant, have remained positive in the period. Roke delivered double digit growth in orders, revenue and underlying operating profit and has maintained strong margins despite increased investment in people, infrastructure and product development.

The Sensors business in the US has continued with the delivery phase of the HMDS Program of Record and continues to focus on the EMD and testing phases of the biological and chemical detection Programs of Record.

On a constant currency basis order intake would have fallen by 27% to £73m, revenue would have risen 19% to £88.2m and underlying operating profit would have been up 24% to £19.0m.

Key developments in the period on Roke’s strategy are summarised below.

In the last three years Roke has seen its headcount increase from c.400 at the end of 2018 to c.700 today, driven in part by the success of its graduate and apprenticeship schemes, which again saw an intake of 44 recruits in the Autumn. Building on this success, Roke is now investing £2.5m of annualised operating expenses in the launch of The Roke Academy. 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.

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 Data Science and AI, Machine Vision, 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 Law Enforcement, Aerospace, Healthcare and Critical National Infrastructure markets.

As part of its strategy to broaden its geographic spread and access to different talent pools, Roke has expanded its footprint in Woking and in doing so has increased its capacity from 25 to over 150 staff. This will provide a first class working experience with an improved environmental impact and the ability to work at a classified level. The Roke Futures business unit, and The Roke Academy will be based out of this office, providing a second HQ to Roke's Romsey site, and a hub of technological and skills development.

As Cyber and Electromagnetic Activity ("CEMA") becomes increasingly important in today's threat environment, and as a consequence of Russia's invasion of Ukraine, we are seeing growing customer enquiries for Roke's suite of world leading Electronic Warfare products. This was illustrated by the receipt of the £8m order in November from the Swedish Ministry of Defence of which part is expected to be delivered in H2 2022.

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 £0.6m in H1 2022 which has been circa 1 percentage point margin dilutive in the Sensors & Information segment.

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, which was lifted in March.

Roke continues to focus its efforts on growing across all its business areas in the UK, increasing in scale both organically and through potential bolt-on acquisitions that enhance and expand Roke's product, service and capability offerings. We continue to actively explore opportunities and have a healthy pipeline of potential acquisition targets.

In our US Sensors business, deliveries have continued as expected on the HMDS program, full-rate production has been mobilised on the EMBD program with a further delivery order of $16m covering FY23 deliveries being received and the sole source JBTDS program is progressing as planned through the EMD phase with a customer procurement decision expected in FY22.

On the AVCAD program the next customer procurement decision point is expected in the first half of FY23. Chemring remains one of two contractors currently competing on this 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. 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.

The order book for Sensors & Information at 30 April 2022 has decreased since the year end to £101.5m (H1 2021: £108.9m, 2021: £113.6m), largely as a result of the delayed HMDS order in our US Sensors business. While the Roke business remains a relatively shorter-cycle order book business, the segment has orders of approximately £44m for delivery in the second half of the year, representing 59% coverage of expected H2 revenue.

Segmental review – Countermeasures & Energetics

Performance

Order intake in the period was higher at £112m (H1 2021: £90m, 2021: £255m), driven by increased order intake at our UK countermeasures facility and across the niche energetics portfolio. The impact of the continuing resolution in the US has slowed the process of doing business with government departments, and as a result some US countermeasures orders expected late in the first half have been delayed.

Revenue was up by 5% to £130.2m (H1 2021: £124.1m, 2021: £246.7m). The segment reported an underlying operating profit of £21.3m (H1 2021: £19.3m, 2021: £40.0m) as underlying operating margin increased to 16.4% (H1 2021: 15.6%, 2021: 16.2%) driven by continued improved operational execution. On a constant currency basis revenue would have been up 1% to £125.9m and operating profit would have been up 7% to £20.6m.

The investment in the expansion and automation of our Tennessee facility to meet the expected demand for F-35 countermeasures has continued during the year. Construction work of buildings was completed in FY21 and the commissioning process has continued to plan in the first half of FY22, and is progressing through characterisation and testing as production gradually ramps up. We expect to generate revenue from the new facility in the second half of 2022 subject to successful customer First Article Test approval. The expected total cost of the programme remains approximately £50m.

Opportunities and outlook

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

Chemring Countermeasures UK (“CCM UK”) has signed a Strategic Partnering Arrangement (“SPA”) with the Royal Air Force, Defence Equipment & Support (“DE&S”) and the Defence Science and Technology Laboratory (“DSTL”), to ensure long-term provision of optimum air platform protection, including the exploitation of current capabilities and the development of new technology. This 10-year SPA will provide a framework for development, allowing CCM to provide the best solutions for protection of all UK fast jet, transport and helicopter platforms fitted with self-defence systems.

Alongside improving continuity of supply and providing the UK MOD with the highest level of air platform protection to counter threats, this SPA will underpin the development of the next generation of countermeasures. As with other EW-related technology fields, the countermeasures sector must keep pace with the ever-evolving missile capabilities, anticipating where and how threat systems can be countered.

This SPA will aid information sharing to facilitate a collaborative approach and encouraging co-operation such that the right level of capability is available to the front line at the right time. Where appropriate, it will also allow CCM UK to make such decoy technology available to a wide range of allies and partner nations, increasing survivability of aircraft and aircrew.

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

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

Countermeasures & Energetics’ order book at 30 April 2022 was £386.6m (H1 2021: £341.5m, 2021: £387.2m). Of the 30 April 2022 order book, approximately £144m is currently expected to be delivered in the second half of 2022, representing 98% coverage of expected H2 revenue.

Net debt

Net debt at 30 April 2022 was £18.5m (H1 2021: £38.7m, 2021: £26.6m). The strengthening of the US dollar from $1.37 as at 31 October 2021 to $1.26 as at 30 April 2022 has resulted in an increase in reported net debt of £1.9m offset by the continued focus on operating cash conversion and the disciplined management of working capital.

Working capital

Working capital was £90.3m (H1 2021: £83.3m, 2021: £84.4m), an increase of £5.9m since year end, of which £5.4m is attributable to foreign exchange. Working capital as a percentage of revenue increased slightly from the year-end level to 22% (2021: 21%). This has been maintained in the context of the Group allocating resource to procure key inventory components earlier to protect against supply chain disruptions, with advanced receipts from customers being negotiated to fund the working capital investment.

Debt facilities

The Group has a £150m revolving credit facility with a syndicate of six banks that runs to December 2024, and has an option to extend for a further three years at the lenders’ discretion. £132.0m (H1 2021: £105.2m, 2021: £128.1m) of this facility was undrawn at the half year.

Retirement benefit obligations

The surplus on the Group's defined benefit pension scheme was £18.1m (H1 2021: £11.8m, 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. A full actuarial valuation for the Scheme was completed as at 6 April 2021, and has been prepared and updated to 30 April 2022, using the projected unit credit method. This valuation showed a surplus of £18.1m (H1 2021: £11.8m, 2021: £13.7m). Despite the volatility in equity and bond markets throughout the period and increased inflation expectations, the resilience of the Scheme's investment strategy, which includes a liability driven investment which hedges future inflation risk, has led to an improvement in the Scheme's funding position and an increased surplus as at 30 April 2022.

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. 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.

In addition the following matters, as previously disclosed in last year's annual report, remained open at period end:

- The Serious Fraud Office (the "SFO") investigation
- The incident that occurred at the Group's Countermeasures site in Salisbury on 10 August 2018

Details of these are included in note 13.

Dividends

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. This was paid on 31 March 2022 to shareholders on the register on 11 March 2022.

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. Therefore, the Board has declared an interim dividend in respect of the 2022 financial year of 1.9p per ordinary share which will be paid on 9 September 2022 to shareholders on the register on 19 August 2022.

Outlook

While foreign exchange at current rates is expected to provide a slight tailwind in the second half of the year, we expect additional operating expenses in respect of the investment in Roke Academy and Roke USA as well as increased utility expenses. In addition, the impact of the continuing resolution in the US has delayed order intake in our US Sensors business. Despite these investment choices and macro-economic challenges the Board's full year expectations are unchanged, supported by 85% of the expected H2 revenue being in the order book as at 30 April 2022.

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 long-term value creation.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the maintenance and integrity of the Company website.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

a) the Condensed Set of Financial Statements has been prepared in accordance with IAS 34 *Interim Financial Reporting*;

b) the Interim Management Report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and details of principal risks and uncertainties for the remaining six months of the year); and

c) the Interim Management Report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

Michael Ord	**Andrew Lewis**
Group Chief Executive	**Group Finance Director**
8 June 2022	**8 June 2022**

CONDENSED CONSOLIDATED INCOME STATEMENT

for the half year to 30 April 2022

	Note	**Unaudited Half year to 30 April 2022**			Unaudited Half year to 30 April 2021		
		Underlying performance £m	**Non-underlying items* £m**	**Total £m**	Underlying performance £m	Non-underlying items* £m	Total £m
Revenue	2	**220.4**	-	**220.4**	198.5	-	198.5
Operating profit	2	**33.5**	**(4.2)**	**29.3**	28.1	(2.9)	25.2
Finance expense		**(0.4)**	-	**(0.4)**	(0.9)	-	(0.9)
Profit before tax		**33.1**	**(4.2)**	**28.9**	27.2	(2.9)	24.3
Tax charge on profit	5	**(2.9)**	**0.5**	**(2.4)**	(3.3)	0.4	(2.9)
Profit after tax for the period		**30.2**	**(3.7)**	**26.5**	23.9	(2.5)	21.4
Earnings per ordinary share							
Basic	6	**10.8p**		**9.5p**	8.5p		7.6p
Diluted	6	**10.5p**		**9.2p**	8.3p		7.4p

	Note	Audited Year to 31 Oct 2021		
		Underlying performance £m	Non-underlying items* £m	Total £m
Revenue	2	393.3	-	393.3
Operating profit	2	57.5	(7.1)	50.4
Finance expense		(1.6)	-	(1.6)
Profit before tax		55.9	(7.1)	48.8
Tax charge on profit	5	(8.3)	1.0	(7.3)
Profit after tax for the year		47.6	(6.1)	41.5
Earnings per ordinary share				
Basic	6	16.9p		14.7p
Diluted	6	16.5p		14.4p

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the half year to 30 April 2022

	Unaudited Half year to 30 April 2022 £m	Unaudited Half year to 30 April 2021 £m	Audited Year to 31 Oct 2021 £m
Profit after tax attributable to equity holders of the parent	**26.5**	21.4	41.5
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains on defined benefit pension schemes	**4.5**	4.3	6.2
Movement on deferred tax relating to pension schemes	**(1.5)**	(1.5)	(2.2)
	3.0	2.8	4.0
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	**17.8**	(9.8)	(8.3)
Tax on exchange differences on translation of foreign operations	**(0.2)**	(0.1)	0.1
	17.6	(9.9)	(8.2)
Total comprehensive income attributable to equity holders of the parent	**47.1**	14.3	37.3

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year to 30 April 2022

Unaudited half year to 30 April 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	-	-	-	-	26.5	26.5
Other comprehensive income	-	-	-	17.8	4.5	22.3
Tax relating to components of other comprehensive income	-	-	-	(0.2)	(1.5)	(1.7)
Total comprehensive income	-	-	-	17.6	29.5	47.1
Ordinary shares issued	0.1	-	-	-	-	0.1
Share-based payments (net of settlement)	-	-	-	-	4.3	4.3
Dividends paid	-	-	-	-	(9.1)	(9.1)
Purchase of shares by employee share ownership plan trust	-	-	-	-	(7.0)	(7.0)
At 30 April 2022	**2.9**	**307.1**	**12.9**	**(9.5)**	**74.8**	**388.2**

*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.

Unaudited half year to 30 April 2021

	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	-	-	-	-	-	21.4	-	21.4
Other comprehensive (loss)/income	-	-	-	-	(9.8)	4.3	-	(5.5)
Tax relating to components of other comprehensive (loss)/income	-	-	-	-	(0.1)	(1.5)	-	(1.6)
Total comprehensive income	-	-	-	-	(9.9)	24.2	-	14.3
Ordinary shares issued	0.1	-	-	-	-	-	-	0.1
Share-based payments (net of settlement)	-	-	-	-	-	1.6	-	1.6
Dividends paid	-	-	-	-	-	(7.4)	-	(7.4)
Purchase of shares by employee share ownership plan trust	-	-	-	-	-	(1.5)	-	(1.5)
Transactions in own shares	-	-	-	-	-	(2.9)	2.9	-
At 30 April 2021	2.9	306.7	12.9	1.0	(28.8)	42.0	-	336.7

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year to 30 April 2022

Audited year to 31 October 2021

	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	-	-	-	-	(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

CONDENSED CONSOLIDATED BALANCE SHEET as at 30 April 2022

	Note	**Unaudited As at 30 April 2022 £m**	Unaudited As at 30 April 2021 £m	Audited As at 31 Oct 2021 £m
Non-current assets				
Goodwill		**113.2**	105.1	108.7
Development costs		**31.8**	28.8	30.0
Other intangible assets		**13.1**	11.9	14.1
Property, plant and equipment		**210.2**	191.9	198.7
Deferred tax		**20.1**	16.6	18.2
Retirement benefit surplus		**18.1**	11.8	13.7
		406.5	366.1	383.4
Current assets				
Inventories		**96.3**	80.3	80.7
Trade and other receivables		**82.5**	58.5	60.6
Cash and cash equivalents	11	**9.9**	3.6	5.8
Derivative financial instruments	8	**1.0**	0.8	1.0
		189.7	143.2	148.1
Total assets		**596.2**	509.3	531.5
Current liabilities				
Borrowings	11	**-**	(0.9)	(0.4)
Lease liabilities	11	**(1.6)**	(1.4)	(1.4)
Trade and other payables		**(115.6)**	(78.6)	(85.7)
Provisions		**(2.6)**	(2.6)	(2.6)
Current tax		**(8.9)**	(8.0)	(12.0)
Derivative financial instruments	8	**(2.3)**	(0.1)	(0.4)
		(131.0)	(91.6)	(102.5)
Non-current liabilities				
Borrowings	11	**(24.9)**	(36.9)	(28.1)
Lease liabilities	11	**(1.8)**	(3.0)	(2.4)
Provisions		**(15.3)**	(15.0)	(14.9)
Deferred tax		**(34.7)**	(26.0)	(30.7)
Preference shares	11	**(0.1)**	(0.1)	(0.1)
Derivative financial instruments	8	**(0.2)**	-	-
		(77.0)	(81.0)	(76.2)
Total liabilities		**(208.0)**	(172.6)	(178.7)
Net assets		**388.2**	336.7	352.8
Equity				
Share capital		**2.9**	2.9	2.8
Share premium account		**307.1**	306.7	307.1
Special capital reserve		**12.9**	12.9	12.9
Revaluation reserve		**-**	1.0	0.9
Translation reserve		**(9.5)**	(28.8)	(27.1)
Retained earnings		**74.8**	42.0	56.2
Total equity		**388.2**	336.7	352.8

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the half year to 30 April 2022

	Note	**Unaudited Half year to 30 April 2022 £m**	Unaudited Half year to 30 April 2021 £m	Audited Year to 31 Oct 2021 £m
Cash flows from operating activities				
Cash generated from continuing underlying operations	10	**43.3**	36.1	80.0
Cash impact of continuing non-underlying items		**(0.2)**	(0.2)	(1.3)
Cash impact of discontinued non-underlying items	10	-	(0.3)	(0.4)
Cash flows from operating activities		**43.1**	35.6	78.3
Tax paid		**(4.7)**	(3.8)	(2.6)
Net cash inflow from operating activities		**38.4**	31.8	75.7
Cash flows from investing activities				
Purchases of intangible assets		**(2.3)**	(0.9)	(2.2)
Purchases of property, plant and equipment		**(15.3)**	(13.2)	(28.0)
Proceeds on disposal of property plant and equipment / subsidiary		**6.0**	0.4	0.4
Acquisition of subsidiary net of cash acquired		**-**	-	(5.1)
Net cash outflow from investing activities		**(11.6)**	(13.7)	(34.9)
Cash flows from financing activities				
Dividends paid	7	**(9.1)**	(7.4)	(11.9)
Purchase of own shares		**(7.0)**	(1.5)	(7.1)
Proceeds from issue of shares		**-**	-	0.4
Finance expense paid		**(0.4)**	(2.2)	(2.6)
Capitalised facility fees paid		-	-	(1.1)
Drawdown of borrowings		**16.0**	-	29.2
Repayments of borrowings		**(21.0)**	(18.3)	(55.7)
Payment of lease liabilities		**(1.0)**	(0.8)	(1.6)
Net cash outflow from financing activities		**(22.5)**	(30.2)	(50.4)
Increase/(decrease) in cash and cash equivalents		**4.3**	(12.1)	(9.6)
Cash and cash equivalents at beginning of period/year		**5.4**	14.7	14.7
Effect of foreign exchange rate changes		**0.2**	0.1	0.3
Cash and cash equivalents at end of period/year (including bank overdraft)	11	**9.9**	2.7	5.4

NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated financial information for each of the six month periods does not constitute statutory accounts as defined by section 435 of the Companies Act 2006 and has not been delivered to the Registrar of Companies. The half-yearly financial report was approved by the Board of Directors on 8 June 2022. The information for the year ended 31 October 2021 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. Full accounts for the year ended 31 October 2021, which include an unqualified audit report, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006, have been delivered to the Registrar of Companies.

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. This condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK.

The latest annual financial statements of the Group were prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the next annual financial statements will be prepared in accordance with UK-adopted international accounting standards. As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the company's published consolidated financial statements for the year ended 31 October 2021 except for income tax and any new and amended standards as set out below.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Going concern

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

As part of their 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 2023, being at least twelve months after the date of approval of the financial statements. This is in addition to the Group's longer-term strategic planning process. In assessing the forecast, the Directors have considered:

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

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

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

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

Alternative Performance Measures ("APMs")

In the analysis of the Group's financial performance and position, operating results and cash flows, APMs are presented to provide readers with additional information. The principal APMs presented are underlying measures of earnings including underlying operating profit, underlying profit before tax, underlying profit after tax, underlying EBITDA, underlying earnings per share, and underlying operating cash flow. In addition, EBITDA, net debt, and constant currency are presented which are also considered to be non-IFRS measures. These measures are consistent with information regularly reviewed by management to run the business, including planning, budgeting and reporting purposes and for its internal assessment of the operational performance of individual businesses.

The directors believe that the use of these APMs assist in providing additional information on the underlying trends, performance and position of the Group. APMs are used to improve the comparability of information between reporting periods by adjusting for items that are non-recurring or otherwise non-underlying. Management consider non-underlying items to be:

- amortisation of acquired intangibles;
- material exceptional items, for example relating to acquisitions and disposals, business restructuring costs and legal costs;
- material exceptional items from changes in legislation;
- gains or losses on the movement in the fair value of derivative financial instruments; and
- the tax impact of all of the above.

Our use of APMs is consistent with the prior year and we provide comparatives alongside all current period figures.

Accounting policies

The accounting policies applied by the Group in this half-yearly financial report are the same as those applied by the Group in its consolidated financial statements for the year ended 31 October 2021 with the exception of income tax which is detailed below. In addition, there have been no significant changes in accounting judgements or key sources of estimation uncertainty as disclosed in the consolidated financial statements for the year ended 31 October 2021.

Income tax expense is recognised at an amount determined by multiplying the profit before tax for the interim reporting period by management's best estimate of the weighted-average annual income tax rate expected for the full financial year, adjusted for the tax effect of certain items recognised in full in the interim period. As such, the effective tax rate in the interim financial statements may differ from management's estimate of the effective tax rate for the annual financial statements.

Recent accounting developments

The following International Financial Reporting Committee ("IFRIC") interpretations, amendments to existing standards and new standards were adopted in the period ending 30 April 2022 but have not materially impacted the reported results or the financial position:

- IFRS 17 *Insurance Contracts*

2. SEGMENTAL ANALYSIS

Period to 30 April 2022 (unaudited)

	Sensors & Information £m	Countermeasures & Energetics £m	Unallocated £m	Group £m
Revenue	**90.2**	**130.2**	**-**	**220.4**
Segment result before depreciation, amortisation and non-underlying items	**20.7**	**29.3**	**(7.2)**	**42.8**
Depreciation	**(1.3)**	**(8.0)**	**-**	**(9.3)**
Amortisation	**-**	**-**	**-**	**-**
Segmental underlying operating profit	**19.4**	**21.3**	**(7.2)**	**33.5**
Amortisation of acquired intangibles	**(1.1)**	**(1.0)**	**-**	**(2.1)**
Non-underlying items	**(0.5)**	**-**	**(1.6)**	**(2.1)**
Segmental operating profit	**17.8**	**20.3**	**(8.8)**	**29.3**

Period to 30 April 2021 (unaudited)

	Sensors & Information £m	Countermeasures & Energetics £m	Unallocated £m	Group £m
Revenue	74.4	124.1	-	198.5
Segment result before depreciation, amortisation and non-underlying items	16.6	27.5	(6.5)	37.6
Depreciation	(1.3)	(7.9)	-	(9.2)
Amortisation	-	(0.3)	-	(0.3)
Segmental underlying operating profit	15.3	19.3	(6.5)	28.1
Amortisation of acquired intangibles	(2.6)	(1.1)	-	(3.7)
Non-underlying items	-	-	0.8	0.8
Segmental operating profit	12.7	18.2	(5.7)	25.2

Year ended 31 October 2021 (audited)

	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 discontinued operations, 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.

	Unaudited period to 30 April 2022 £m	Unaudited period to 30 April 2021 £m	Audited year ended 31 October 2021 £m
(Loss)/gain on the movement in the fair value of derivative financial instruments	**(1.6)**	0.8	0.7
Acquisition expenses	**(0.5)**	-	(1.6)
Impact of non-underlying items on EBITDA	**(2.1)**	0.8	(0.9)
Intangible amortisation arising from business combinations	**(2.1)**	(3.7)	(6.2)
Impact of non-underlying items on operating profit and profit before tax	**(4.2)**	(2.9)	(7.1)
Tax impact of non-underlying items	**0.5**	0.4	1.0
Impact of non-underlying items on profit after tax	**(3.7)**	(2.5)	(6.1)

Derivative financial instruments
Included in non-underlying items is a £1.6m loss (H1 2021: £0.8m gain, 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 £0.5m (H1 2021: £nil, 2021: £1.6m) of acquisition expenses. This includes £0.5m (H1 2021: £nil, 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. 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 £2.1m (H1 2021: £3.7m, 2021: £6.2m). Amortisation of acquired intangibles arising from business combinations is associated with acquisition costs 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 period to 30 April 2022, the tax impact of non-underlying items comprises a £0.5m tax credit (H1 2021: £0.4m credit, 2021: £1.0m credit) on the above non-underlying items.

4. SEASONALITY OF REVENUE

Revenue in the Countermeasures & Energetics segment is expected to be slightly weighted towards the second half of the financial year. This second half weighting arises due to customer behaviours in the defence marketplace, the timing of expected contract activity and planned facility maintenance work programmes, and the acceptance testing of products by customers.

Revenue in the Sensors & Information segment normally has a slight first half bias, with revenue at Roke driven by the UK Government budget year. However, in FY22, we expect a more significant first half bias as a result of the continuing resolution in the US delaying orders in our US Sensors business and an expected impact on second half revenue as a consequence.

5. TAX

	Unaudited period to 30 April 2022 £m	Unaudited period to 30 April 2021 £m	Audited year ended 31 October 2021 £m
Underlying tax charge	**2.9**	3.3	8.3
Tax impact of non-underlying items	**(0.5)**	(0.4)	(1.0)
Total statutory tax charge	**2.4**	2.9	7.3

The statutory tax charge totalled £2.4m (H1 2021: £2.9m, 2021: £7.3m) on a statutory profit before tax of £28.9m (H1 2021: £24.3m, 2021: £48.8m).

The effective tax rate on underlying profit before tax for the period is a charge of 8.8% (H1 2021: 12.1%, 2021: 14.8%). The effective tax rate is lower than the 2021 effective tax rate due to the recognition of a deferred tax asset in respect of future US interest deductions.

6. EARNINGS PER SHARE

Earnings per share are based on the average number of shares in issue, excluding own shares held, of 280,228,972 (H1 2021: 281,391,352, 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 287,754,943 (H1 2021: 288,152,175, 2021: 287,985,451).

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

			Unaudited Half year to 30 April 2022			Unaudited Half year to 30 April 2021
	£m	**Basic EPS (pence)**	**Diluted EPS (pence)**	£m	Basic EPS (pence)	Diluted EPS (pence)
Underlying profit after tax	**30.2**	**10.8**	**10.5**	23.9	8.5	8.3
Non-underlying items	**(3.7)**			(2.5)		
Total profit after tax	**26.5**	**9.5**	**9.2**	21.4	7.6	7.4

			Audited year to 31 October 2021
	£m	Basic EPS (pence)	Diluted EPS (pence)
Underlying profit after tax	47.6	16.9	16.5
Non-underlying items	(6.1)		
Total profit after tax	41.5	14.7	14.4

7. DIVIDENDS

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 (H1 2021: £7.4m).

The Board also declared an interim dividend in respect of 2022 of 1.9p per ordinary share (2021: 1.6p) which will be paid on 9 September 2022 to shareholders on the register on 19 August 2022. The estimated cash value of this dividend is £5.4m (2021: £4.5m).

8. FINANCIAL INSTRUMENTS

As at 30 April 2022, there were no significant differences between the book value and fair value (as determined by market value) of the Group's derivative financial instruments.

The fair value of derivative financial instruments is estimated by discounting the future contracted cash flow using readily available market data and represents a Level 2 measurement in the fair value hierarchy under IFRS 7 *Financial Instruments: Disclosures*. As at 30 April 2022, the total fair value of forward foreign exchange contracts recognised in the condensed consolidated balance sheet were an asset of £1.0m (H1 2021: £0.8m, 2021: £1.0m), a current liability of £2.3m (H1 2021: £0.1m, 2021: £0.4m) and a non-current liability of £0.2m (H1 2021: £nil, 2021: £nil).

9. RELATED PARTY TRANSACTIONS

Transactions with related parties are shown on page 153 of the 2021 Annual Report. There were no significant related party transactions during the current period requiring disclosure.

10. CASH FLOWS FROM UNDERLYING OPERATIONS

	Unaudited Half year to 30 April 2022 £m	Unaudited Half year to 30 April 2021 £m	Audited Year to 31 Oct 2021 £m
Operating profit	**29.3**	25.2	50.4
Amortisation of development costs	**-**	0.3	0.6
Amortisation of intangible assets arising from business combinations	**2.1**	3.7	6.2
Amortisation of patents and licenses	**-**	-	0.1
Loss on disposal of non-current assets	**-**	-	0.1
Depreciation of property, plant and equipment	**9.3**	9.2	18.2
Non-cash movement of non-underlying items	**2.1**	(0.8)	0.9
Share-based payment expense	**4.8**	2.1	5.3
Operating cash flows before movements in working capital	**47.6**	39.7	81.8
(Increase)/decrease in inventories	**(9.4)**	8.1	7.9
(Increase)/decrease in trade and other receivables	**(20.3)**	3.3	0.9
Increase/(decrease) in trade and other payables	**25.3**	(14.8)	(10.3)
Increase/(decrease) in provisions	**0.1**	(0.2)	(0.3)
Operating cash flow from continuing underlying operations	**43.3**	36.1	80.0
Discontinued operations			
Operating cash flow from discontinued underlying operations	**-**	-	-
Cash impact of non-underlying items from discontinued operations	**-**	(0.3)	(0.4)
Net cash outflow from discontinued operating activities	**-**	(0.3)	(0.4)
Net cash inflow from discontinued investing activities	**-**	0.4	0.4
Net cash inflow from discontinued operations	**-**	0.1	-

11. ANALYSIS OF NET DEBT

	As at 1 Nov 2021 £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	**As at 30 April 2022 £m**
Cash and cash equivalents*	5.4	4.3	-	0.2	**9.9**
Debt due after one year	(28.1)	5.0	(0.1)	(1.7)	**(24.9)**
Lease liabilities	(3.8)	1.0	(0.2)	(0.4)	**(3.4)**
Preference shares	(0.1)	-	-	-	**(0.1)**
	(26.6)	10.3	(0.3)	(1.9)	**(18.5)**

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

The Group had £132.0m (H1 2021: £105.2m, 2021: £128.1m) of undrawn borrowing facilities at the half year.

The Group is subject to two key financial covenants, which are tested quarterly. These covenants relate to the leverage ratio between "underlying EBITDA" and net debt; and the interest cover ratio between underlying EBITDA and finance costs. The calculation of these ratios involves the translation of non-Sterling denominated debt using average, rather than closing, rates of exchange. The Group was in compliance with the covenants throughout the period. The half year leverage ratio was 0.23 times (covenant limit of 3 times) and the half year interest cover ratio was 66 times (covenant limit of 4 times).

*Cash and cash equivalents in the table above includes the bank overdraft classified within current borrowings on the balance sheet.

12. EXCHANGE RATES

The following exchange rates applied during the period:

	Average rate H1 2022	**Closing rate H1 2022**	Average rate H1 2021	Closing rate H1 2021	Average rate 2021	Closing rate 2021
AU dollar	**1.79**	**1.77**	1.82	1.79	1.82	1.83
US dollar	**1.31**	**1.26**	1.39	1.38	1.38	1.37

The translation of foreign currency items in the financial statements are dependent on the prevailing foreign exchange rates. For the period ended 30 April 2022, a 10 cent increase in the US dollar exchange rate would have decreased reported underlying operating profit for the first half of 2022 by approximately £1.2m and decreased reported net debt at 30 April 2022 by approximately £1.0m.

13. 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 accordance with the Serious Fraud Office ("SFO") News Release dated 18 January 2018, an investigation was opened by the SFO into Chemring Group PLC ("CHG") and its subsidiary, Chemring Technology Solutions Limited ("CTSL"), following a self-report made by CTSL. The investigation relates to bribery, corruption and money laundering arising from the conduct of business by CHG and CTSL including any officers, employees, agents and persons associated with them. It is too early to predict the outcome of the SFO's investigation, in which the Group continues to co-operate fully.

On 10 August 2018 an incident occurred at our countermeasures facility in Salisbury. The Group responded immediately to support those who were injured, and maintains appropriate employers' liability insurance that we expect will provide full compensation in due course. We continue to fully support the Health and Safety Executive ("HSE") as it undertakes its investigation. Whilst provisions have been recorded for costs that have been identified, it is possible that additional uninsured costs and, depending on the outcome of the HSE investigation, financial penalties may be incurred. At this stage these costs are not anticipated to be material in the context of the Group's financial statements.

14. EVENTS AFTER THE BALANCE SHEET DATE

There were no events after the balance sheet date requiring disclosure.

15. 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. A detailed description of the Group's principal risks and uncertainties and the ways they are mitigated can be found on pages 64 to 71 of the 2021 Annual Report and Accounts. These risks can be summarised as:

- occupational and process safety risks;
- environmental laws and regulations risks;
- market-related risks;
- political risks;
- contract-related risks;
- technology risks;
- financial risks;
- operational risks;
- people risks;
- compliance and corruption risks;
- cyber-related risks.

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

In addition, the Group is closely monitoring the CV-19 pandemic and taking steps to follow relevant Government guidance to mitigate any potential impacts to the health and safety of employees.

16. CORPORATE WEBSITE

Further information on the Group and its activities can be found on the corporate website at www.chemring.com.

INDEPENDENT REVIEW REPORT TO CHEMRING GROUP PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 April 2022 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Cash Flow Statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 April 2022 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued* by the Auditing Practice Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the latest annual financial statements of the group were prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the next annual financial statements will be prepared in accordance with UK-adopted international accounting standards. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Andrew Campbell-Orde
for and on behalf of KPMG LLP
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Gateway House
Tollgate
Chandlers Ford
Southampton
SO53 3TG

8 June 2022