CHEMRING GROUP PLC 6 JUNE 2023

(“Chemring” or “the Group” or “the Company”)

INTERIM RESULTS FOR THE SIX MONTHS TO 30 APRIL 2023

Record order book, full year expectations unchanged, strong long-term prospects

	As reported		*At H1 2022 exchange rates*		
	H1 2023	***Change***	*H1 2023*	*Change*	H1 2022
Order intake (£m)	**338.2**	**+81%**	*338.6*	*+82%*	186.4
Revenue (£m)	**212.1**	**-4%**	*210.2*	*-5%*	220.4
Underlying EBITDA*(£m)	**35.7**	**-17%**	*35.9*	*-16%*	42.8
Underlying operating profit* (£m)	**26.6**	**-21%**	*27.0*	*-19%*	33.5
Underlying profit before tax* (£m)	**25.6**	**-23%**	*26.0*	*-21%*	33.1
Underlying basic earnings per share* (pence)	**7.7**	**-29%**	*7.8*	*-28%*	10.8
Statutory operating profit (£m)	**23.0**	**-22%**	*23.4*	*-20%*	29.3
Interim dividend per share (pence)	**2.3**	**+21%**	*2.3*	*+21%*	1.9
Net debt at 30 April (£m)	**25.0**	**+35%**	*24.7*	*+34%*	18.5
Order book (£m)	**749.5**	**+54%**	*765.1*	*+57%*	488.1

Highlights

- H1 2023 was in line with the Board’s expectations. As previously announced, delays to order intake in 2022 following the extended US Continuing Resolution have resulted in a heavier weighting of trading performance and cash generation expected in the second half of the financial year for the Countermeasures & Energetics sector
- Record H1 order intake and order book, at the highest level in over a decade at £750m
  - Order intake for Sensors & Information was £100m, up 35%, with Roke continuing to execute its growth strategy
  - Order intake for Countermeasures & Energetics was £238m, up 113%, driven by strong demand at our niche energetics businesses including an order for our Scottish facility of £43m for the delivery of critical components used on the Next Generation Light Anti-Tank Weapon system (“NLAW”)
- Roke revenue in the first half was up 44% to £78m and order intake up 41% to £82m with the business well positioned to continue its growth trajectory in what continues to be a buoyant market
- Sensors & Information underlying operating margin was 19.4% (H1 2022: 21.5%, 2022: 18.5%), the decrease on H1 2022 driven by the Husky Mounted Detection System (“HMDS”) program transition to sustainment in H2 2022 and continuation of operating expense investment at Roke ahead of the revenue curve
- Countermeasures & Energetics underlying operating margin was 13.3% (H1 2022: 16.4%, 2022: 17.4%), the decrease reflecting the operational gearing impact of revenue being weighted towards the second half of 2023 and increased energy costs
- Net debt was £25.0m (H1 2022: £18.5m), the increase due to timing of working capital investment required to deliver H2 revenue. Net debt to underlying EBITDA of 0.33 times (H1 2022: 0.23 times). H2 cash generation is expected to improve markedly
- £90m capacity expansion plan to 2026 initiated to capitalise on growing demand in Energetics, delivering incremental revenue of £60m per annum
- Interim dividend per share of 2.3p, up 21% (H1 2022: 1.9p)

- The Board's expectations for 2023 are unchanged. Approximately 90% (H1 2022: 85%) of expected H2 revenue was in the order book at 30 April 2023. The Group's longer-term prospects are strong, underpinned by activity levels and our leading technological offering

Michael Ord, Chemring Group Chief Executive, commented:

"It has been a period of heightened activity across the Group as we adapt to changing customer spending priorities. In response to increased global uncertainty and competition, demand for both technology-driven solutions and a resurgent demand for traditional defence capabilities, has resulted in record H1 order intake and an order book at its highest level for over a decade.

"The outlook for the global defence market is increasingly positive, with strong growth predicted over the next decade. This growing visibility and the increasing desire of our customers to move to long-term partnering agreements gives us the confidence to continue to invest for the future, balancing short-term performance with heightened long-term growth and value creation. Chemring is well placed to capitalise on its many opportunities and with 90% of expected H2 revenues covered by the order book, the Board's full year expectations are unchanged."

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, 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 2023 financial information at the H1 2022 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)	35.7	(1.4)	34.3
Operating profit (£m)	26.6	(3.6)	23.0
Profit before tax (£m)	25.6	(3.6)	22.0
Tax charge on profit (£m)	(3.9)	0.6	(3.3)
Profit after tax (£m)	21.7	(3.0)	18.7
Basic earnings per share (pence)	7.7		6.6
Diluted earnings per share (pence)	7.5		6.5
Segments:			
Sensors & Information EBITDA (£m)	20.8	(1.8)	19.0
Sensors & Information operating profit (£m)	19.0	(2.9)	16.1
Countermeasures & Energetics EBITDA (£m)	22.3	-	22.3

Countermeasures & Energetics operating profit (£m)	15.2	(1.1)	14.1

The non-underlying adjustments comprise:

- amortisation of acquired intangibles of £2.2m (H1 2022: £2.1m, 2022: £4.6m)
- gain on the movement in the fair value of derivative financial instruments of £0.4m (H1 2022: £1.6m loss, 2022: £4.1m loss)
- acquisition expenses of £1.8m (H1 2022: £0.5m, 2022: £2.0m) which includes £1.7m of deferred consideration accounted for as a post-acquisition expense under IFRS 2
- tax impact of adjustments of £0.6m credit (H1 2022: £0.5m credit, 2022: £1.3m 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 2,500 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 6 June 2023.

Analyst meeting

An analyst meeting will take place at 09.00 (UK time) on Tuesday 6 June 2023 at the offices of Investec Bank plc, 30 Gresham St, London EC2V 7QP. To confirm attendance please contact MHP Group: chemringplc@mhpgroup.com.

Photography

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

INTERIM MANAGEMENT REPORT

Group overview

The Group's first half performance was in line with the Board's expectations. As previously announced, delays to order intake in 2022 following the extended US Continuing Resolution have resulted in a heavier weighting of trading performance and cash generation expected in the second half of the financial year.

Order intake for H1 2023 was exceptionally strong in both segments, up 81% to £338m (H1 2022: £186m, 2022: £551m). Revenue was down 4% to £212.1m (H1 2022: £220.4m, 2022: £442.8m) reflecting the expected bias of trading performance in the second half of 2023.

Underlying operating profit was down 21% to £26.6m (H1 2022: £33.5m, 2022 £64.0m) resulting in an underlying operating margin of 12.5% (H1 2022: 15.2%, 2022: 14.5%). The decrease compared to H1 2022 primarily reflects the operational gearing impact of the second half bias of revenue in Countermeasures & Energetics, and in Sensors & Information, HMDS moving to sustainment offset by continued strong growth at Roke.

Total finance expense was higher at £1.0m (H1 2022: £0.4m, 2022: £1.5m) reflecting the significant increase in interest rates during the second half of 2022 which has continued into 2023.

Underlying profit before tax was £25.6m (H1 2022: £33.1m, 2022: £62.5m). The effective tax rate on the underlying profit before tax was 15.2% (H1 2022: 8.8%, 2022: 9.1%). The charge in the previous period was reduced by a credit for the recognition of a deferred tax asset in respect of future US interest deductions that were previously unrecognised. The underlying earnings per share was 7.7p (H1 2022: 10.8p, 2022: 20.2p).

The bias in trading performance to the second half in FY23 has resulted in a working capital investment timing difference increasing net debt at the half year to £25.0m (H1 2022: £18.5m, 2022: £7.2m). In addition, we have continued with our capital investment activity, including the acquisition of Geollect.

Underlying operating cash inflow of £22.9m (H1 2022: £43.3m, 2022: £90.1m) represented 64% (H1 2022: 101%, 2022: 109%) of underlying EBITDA. Whilst the half year cash conversion has reduced due to the timing difference mentioned above, our two-year rolling average cash conversion has been 100%, showing the ongoing focus on working capital improvements is delivering long-term, sustainable positive results. We expect cash conversion for FY23 to return to circa 90% which would result in the three-year rolling average cash conversion being circa 100%.

The Group's order book at 30 April 2023 was £750m (H1 2022: £488m, 2022: £651m). Approximately £232m of the order book is scheduled for delivery during the second half of FY23. This represents cover of approximately 90% (H1 2022: 85%) of expected second half revenue. This leaves £518m of order book to be delivered in FY24 and beyond. At this stage, this provides approximately 78% (H1 2022: 66%) cover of expected FY24 revenue and approximately 60% cover of expected FY25 revenue in Countermeasures & Energetics. In Sensors & Information this provides approximately 30% (H1 2022: 31%) cover of expected FY24 revenue.

Statutory operating profit was £23.0m (H1 2022: £29.3m, 2022: £53.3m) and after statutory finance expenses of £1.0m (H1 2022 £0.4m, 2022: £1.5m), statutory profit before tax was £22.0m (H1 2022: £28.9m, 2022: £51.8m). The statutory profit after tax was £18.7m (H1 2022: £26.5m, 2022: £47.4m) giving a statutory basic earnings per share of 6.6p (H1 2022: 9.5p, 2022: 16.9p). The impact of non-underlying items on statutory profit measures is provided in note 3. The non-underlying costs in H1 2023 related to the amortisation of acquired intangibles, costs relating to acquisitions, gains on the movement in the fair value of derivative financial instruments and the tax credit associated with these.

Segmental review - Sensors & Information

Performance

Order intake in the period increased by 35% to £100m (H1 2022: £74m, 2022: £195m) and revenue increased by 9% to £97.9m (H1 2022: £90.2m, 2022: £162.3m) with growth at Roke offset by the fall in revenue at our US sensors business due to the reduction in HMDS revenue, as it transitions to one predominantly now delivering on biological detection programs.

Roke

Roke has continued its positive momentum into FY23 delivering strong growth in orders and revenue, with order intake up 41% to £82m, and revenue up 44% to £77.8m. It has also maintained its track record of delivering double digit growth in underlying operating profit and has maintained strong margins despite increased investment in people, infrastructure and product development.

Roke continues to win a number of contracts as the prime contractor and therefore order intake and revenue contains an element of "pass-through". The table below shows order intake for Roke's products and service grew by 15% with revenue growth of 39%.

Roke "pass-through" impact	**H1 2023 £m**	H1 2022 £m	**Change**
Order intake			
Products and services	**62**	54	**+15%**
Pass-through	**20**	4	**+400%**
As reported	**82**	58	**+41%**
Revenue			
Products and services	**61**	44	**+39%**
Pass-through	**17**	10	**+70%**
As reported	**78**	54	**+44%**

The Integrated Review Refresh 2023 of Defence, Security and Foreign Policy ("IRR23") focused on the UK's ability to deter, defend and compete across all domains, most notably in areas including cyber, information advantage and the digitalisation of defence, artificial intelligence, and multi-domain integration. When matched with increasing budgets, this is expected to accelerate the demand for Roke's market-leading skills and technologies.

A key element of the IRR23 was the need to upgrade statecraft for systemic competition. This is driving demand for Roke's national security capabilities, particularly in active cyber defence and technological mission support services to core government customers.

In Roke's defence markets, the increasing importance of Cyber and Electromagnetic Activity ("CEMA") in today's threat environment, heightened further as a consequence of Russia's invasion of Ukraine, has led to a growing number of enquiries for Roke's suite of world-leading Electronics Warfare products. Roke currently has requests for quotation in excess of £200m outstanding, and is well positioned to win several multi-year orders.

A notable highlight in the period has been the progress made in the Roke Futures business area which has continued to make strong progress in scaling its business activities in H1 2023. Roke Futures delivers technology solutions to clients outside of National Security and Defence markets and is gaining traction with customers including Rolls Royce, Waygate Technologies, and Vodafone. Roke Futures is also now supporting a new client, a FTSE 100 multinational mining company, through the development of innovative technology solutions and approaches. Roke technologies and capabilities, such as autonomy and intelligent sensing, can fundamentally change the way in which minerals are processed, unlocking production capacity through improvements in efficiency and the reduction of waste.

US Sensors

Revenues from our US Sensors business decreased by £17.3m as expected, as a result of the re-prioritisation of US DoD budgets away from the HMDS in 2022, as previously highlighted. The Sensors & Information H1 2022 comparator included £28.5m of revenue and £4.3m of operating profit relating to HMDS.

FY23 represents a transitional period for our US Sensors business from explosive hazard detection to biological detection. Deliveries under the full rate production phase of the Enhanced Maritime Biological Detection System ("EMBD") program have continued as planned and we received a third option quantity exercised under the sole source $99m Indefinite Delivery / Indefinite Quantity contract of $15.3m with deliveries expected to be made in FY23 and FY24. Following the expected completion of the engineering and manufacturing development ("EMD") phase of the Joint Biological Tactical Detection System ("JBTDS") program, we anticipate being awarded a contract for low rate initial production ("LRIP") in the second half of the year. A LRIP Production Readiness Review, with supporting Manufacturing Readiness Assessment, took place in mid-May and the procurement decision expected to follow shortly thereafter.

On the Aerosol and Vapor Chemical Agent Detector program, the customer procurement decision has been further delayed and is now expected in the second half of FY23. Chemring remains one of two contractors currently competing on this program.

Sensors & Information operating profit
Underlying operating profit was flat at £19.0m (H1 2022: £19.4m, 2022: £30.0m), as the underlying operating margin declined to 19.4% (H1 2022: 21.5%, 2022: 18.5%). We continued to invest in the Roke Academy and the graduate and apprentice programmes, recruiting circa 150 fee earners in the last year, positioning Roke well to deliver on its future growth ambition. Excluding Roke pass-through revenue, the operating margin for Sensors & Information would have been 23.4% (H1 2022: 24.1%, 2022: 20.5%). A bridge of revenue and operating profit from H1 2022 to H1 2023 is shown below.

£m	**Revenue**	**Operating profit**
H1 2022	**90.2**	**19.4**
Increase in Roke products & services	17.2	4.3
Increase in Roke pass-through	6.7	-
Increase in Roke operating expense investment	-	(1.8)
Decrease in US Sensors HMDS	(28.5)	(4.3)
Increase in US Sensors EMBD	11.2	1.3
Exchange effects	1.1	0.1
H1 2023	**97.9**	**19.0**

Constant currency
On a constant currency basis order intake would have risen by 32% to £98.2m, revenue would have risen 7% to £96.8m and underlying operating profit would have been £18.9m.

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, information security and biological detection.

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. Driven by the needs of our national security, defence and commercial customers to access open source intelligence, Roke has created an Intelligence as a Service business which combines proprietary datasets, AI, and customer facing platforms to provide nation state level intelligence to both government and commercial customers. Viewed as a key enabler of tactical success, our expectations are that this business can grow at 35% CAGR. 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.

In our FY22 results in December 2022, we stated our vision for the next five years was to maintain Roke's recent record of growth, doubling annual revenue to greater than £200m organically, whilst maintaining strong margins. With the increased activity that we are seeing across all Roke's business areas we have revised that vision, raising our ambitions to increase Roke's annual revenues to greater than £250m organically by 2028, whilst maintaining strong margins.

As demonstrated with the acquisition of Geollect in December 2022, the integration of which is progressing as planned, 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 2023 has increased since the year end to £153m (H1 2022: £102m, 2022: £154m). While the Roke business remains a relatively shorter-cycle order book business, the segment has orders of approximately £67m for delivery in the second half of the year, representing 72% (H1 2022: 59%) coverage of expected H2 revenue.

Segmental review - Countermeasures & Energetics

Performance

In Countermeasures & Energetics, order intake was £238m, up 113% (H1 2022: £112m, 2022: £331m) with notable contract awards including a $39m order for the delivery of countermeasures from our newly commissioned automated facility in Tennessee, and a £43m order for the delivery of critical components used on the NLAW system from our Scottish facility.

We are seeing increasing levels of activity and demand in the propellants and energetic materials markets as customers re-evaluate their operational usage and stockpile requirements associated with traditional defence capabilities, with order intake from our energetics businesses up 192% to £149m (H1 2022: £51m, 2022: £137m). Even prior to 2022 demand for these energetic materials has exceeded global supply, and customers are now seeking long-term strategic supply agreements, with corresponding orders, in order to secure their place in our production schedules.

Revenue fell by 12% to £114.2m (H1 2022: £130.2m, 2022: £280.5m) due to delays to order intake in 2022 following the extended US Continuing Resolution, which has resulted in a greater bias of trading performance and cash generation expected in the second half of this financial year. The segment reported an underlying operating profit of £15.2m (H1 2022: £21.3m, 2022: £48.9m). The underlying operating margin decreased to 13.3% (H1 2022: 16.4%, 2022: 17.4%) driven by the operational gearing impact of revenue being weighted towards the second half of FY23 together with increased energy costs and wage inflation. On a constant currency basis revenue would have been down 13% to £113.4m and operating profit would have been down 27% to £15.6m.

Opportunities and outlook

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

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

As planned, we will complete the process of modernisation and automation across our sites. This is now embedded in our countermeasures sites and our future focus will be on our energetics facilities. The improved market conditions for our energetics businesses reflected in our order intake and order book has presented a strong organic growth opportunity to expand capacity at these sites in parallel with the planned modernisation to capitalise on the long-term demand we are seeing. A three year investment programme is planned through to FY26 at a cost of approximately £90m which, when completed, is expected to generate incremental revenue of circa £60m and incremental operating profit of circa £13m per annum.

Countermeasures & Energetics' order book at 30 April 2023 was £597m (H1 2022: £386m, 2022: £497m) of which approximately £165m is currently expected to be delivered in the second half of FY23, representing 99% (H1 2022: 98%) coverage of expected H2 revenue.

Retirement benefit obligations
The surplus on the Group's defined benefit pension scheme was £10.3m (H1 2022: £18.1m, 2022: £11.2m), measured in accordance with IAS 19 (Revised) *Employee Benefits*.

The surplus relates to the Chemring Group Staff Pension Scheme (the "Scheme"), a UK defined benefit scheme whose assets are held in a separately administered fund. The Scheme was closed to future accrual in April 2012. A full actuarial valuation for the Scheme was completed as at 6 April 2021, and has been prepared and updated to 30 April 2023, using the projected unit credit method. Despite the volatility in equity and bond markets throughout the period and increased inflation expectations, the resilience of the Scheme's investment strategy, which includes a liability driven investment which hedges future interest rate and inflation risk, has protected the Scheme's surplus position which represents 117% of scheme liabilities.

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

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.

Dividends
At the Annual General Meeting on 15 March 2023 the shareholders approved a final dividend in respect of the year ended 31 October 2022 of 3.8p per ordinary share. This was paid on 14 April 2023 to shareholders on the register on 24 March 2023.

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 2023 financial year of 2.3p per ordinary share which will be paid on 8 September 2023 to shareholders on the register on 18 August 2023.

Board of Directors
On 23 January 2023 the Group announced that after six years as Chief Financial Officer and a director of the Company, Andrew Lewis had informed the Board of his intention to retire following the completion of his 12 months notice period. A process to find a successor was immediately launched.

On 24 May 2023, the Group announced the appointment of James Mortensen as Chief Financial Officer. He has held various senior roles at Smiths Group PLC, the FTSE 100 diversified engineering business, including having been Chief Financial Officer of Smith Medical Division. His current role at Smiths is Group Head of Corporate Development. The Group is working with James to agree the date on which he will join Chemring. A further announcement will be made in due course.

Markets
Russia's illegal invasion of Ukraine has reset the defence and security environment in Europe with several European countries renewing their defence spending commitments and announcing budget increases of varying degrees. The perceived threat from China is driving a strong US defence modernisation programme as well as the strengthening of US military alliances across the Asia-Pacific region.

The US continues to be the largest defence and security market in the world and remains opportunity-rich for the Group's capabilities. The FY24 Budget Request from the Biden-Harris Administration for the US Department of Defense ("US DoD") is US$842bn and has a strong focus on strengthened cooperation with allies, modernisation procurements to maintain full spectrum dominance and the largest ever investment in Research and Development ("R&D"). Group capabilities in cyber, space, hypersonics and advanced weapons, electronic warfare ("EW") and chem/bio security give us the opportunity to address many of these needs. International sales of the F-35 stealth multirole combat aircraft continue to be strong, with Germany placing an order for 35 F-35A in December 2022 and Canada ordering 88 of the same aircraft in January 2023. As a provider of countermeasures for this fifth-generation fighter, these programmes will contribute to us sustaining our leadership position in the addressable air countermeasures market.

In the UK, the March 2023 Integrated Review Refresh ("IRR23") reconfirmed the strong foundations of our market position that was described in the 2021 Integrated Review of Defence, Security and Foreign Policy ("IR21"). IRR23 addresses the rapid and unexpected intensification of the threat environment following Russia's illegal invasion of Ukraine, and our broad-based business portfolio with differentiated capabilities in Countermeasures & Energetics, and Sensors & Information position us well to respond to the confirmed customer demands. National resilience in product areas such as countermeasures, munitions, and complex weapons – all of which require energetic components, will be achieved through new customer investment in enlarged stockpiles and industrial capacity. The digitalisation of defence, the crucial role of deterring, defending and competing in cyberspace, as well as the focus on artificial intelligence as a priority technology area will drive ever increasing demand for Roke's world-class expertise.

European allies (both NATO and non-NATO members) have plans in place to boost defence investment to address the replacement of defence capabilities provided to Ukraine (circa €30 billion), remove capability gaps, and enhance stockpile and readiness levels. Chemring is well placed to benefit from elements of this demand.

Outlook
The Board's full year expectations are unchanged, supported by order coverage at 30 April 2023 of 90% of the expected H2 revenue.

The market backdrop for defence is increasingly positive. With customers needing to re-equip and modernise their defence capabilities, and with the increasing trend of customers looking for long-term partnering agreements providing increased visibility, Chemring's long-term prospects remain strong. The Group will continue to focus on cash generation and maintaining a robust and deployable balance sheet to enable opportunities for further growth.

With market-leading innovative technologies and services that are critical to our customers the Board is confident that Chemring will continue to deliver both robust 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* as adopted for use in the UK;

b) the Interim Management Report includes a fair review of the information required by:
  - DTR 4.2.7R of the *Disclosure Guidance and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - DTR 4.2.8R of the *Disclosure Guidance and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board

Michael Ord	**Andrew Lewis**
Group Chief Executive	**Group Chief Financial Officer**
6 June 2023	**6 June 2023**

CONDENSED CONSOLIDATED INCOME STATEMENT

for the half year to 30 April 2023

	Note	**Unaudited Half year to 30 April 2023** Underlying performance £m	**Non-underlying items*** £m	**Total** £m	Unaudited Half year to 30 April 2022 Underlying performance £m	Non-underlying items* £m	Total £m
Revenue	2	**212.1**	-	**212.1**	220.4	-	220.4
Operating profit	2	**26.6**	**(3.6)**	**23.0**	33.5	(4.2)	29.3
Finance expense		**(1.0)**	-	**(1.0)**	(0.4)	-	(0.4)
Profit before tax		**25.6**	**(3.6)**	**22.0**	33.1	(4.2)	28.9
Tax charge on profit	5	**(3.9)**	**0.6**	**(3.3)**	(2.9)	0.5	(2.4)
Profit after tax for the period		**21.7**	**(3.0)**	**18.7**	30.2	(3.7)	26.5
Earnings per ordinary share							
Basic	6	**7.7p**		**6.6p**	10.8p		9.5p
Diluted	6	**7.5p**		**6.5p**	10.5p		9.2p

	Note	Audited Year to 31 Oct 2022 Underlying performance £m	Non-underlying items* £m	Total £m
Revenue	2	442.8	-	442.8
Operating profit	2	64.0	(10.7)	53.3
Finance expense		(1.5)	-	(1.5)
Profit before tax		62.5	(10.7)	51.8
Tax charge on profit	5	(5.7)	1.3	(4.4)
Profit after tax for the year		56.8	(9.4)	47.4
Earnings per ordinary share				
Basic	6	20.2p		16.9p
Diluted	6	19.7p		16.4p

* 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 2023

	Unaudited Half year to 30 April 2023 £m	Unaudited Half year to 30 April 2022 £m	Audited Year to 31 Oct 2022 £m
Profit after tax attributable to equity holders of the parent	**18.7**	26.5	47.4
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of the defined benefit pension schemes	**(1.1)**	4.5	(2.3)
Movement on deferred tax relating to pension schemes	**0.3**	(1.5)	0.8
	(0.8)	3.0	(1.5)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	**(23.1)**	17.8	35.0
Tax on exchange differences on translation of foreign operations	**(1.2)**	(0.2)	(0.4)
	(24.3)	17.6	34.6
Total comprehensive (loss)/income attributable to equity holders of the parent	**(6.4)**	47.1	80.5

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year to 30 April 2023

Unaudited half year to 30 April 2023

	Share capital £m	Share premium account £m	Special capital reserve £m	Translation reserve £m	Retained earnings £m	Total £m
At 1 November 2022	2.8	307.7	12.9	7.5	87.2	418.1
Profit after tax	-	-	-	-	18.7	18.7
Other comprehensive loss	-	-	-	(23.1)	(1.1)	(24.2)
Tax relating to components of other comprehensive loss	-	-	-	(1.2)	0.3	(0.9)
Total comprehensive loss	-	-	-	(24.3)	17.9	(6.4)
Ordinary shares issued	-	0.1	-	-	-	0.1
Share-based payments (net of settlement)	-	-	-	-	4.0	4.0
Dividends paid	-	-	-	-	(10.8)	(10.8)
Purchase of shares by employee share ownership plan trust	-	-	-	-	(5.4)	(5.4)
At 30 April 2023	**2.8**	**307.8**	**12.9**	**(16.8)**	**92.9**	**399.6**

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year to 30 April 2023

Audited year to 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

CONDENSED CONSOLIDATED BALANCE SHEET as at 30 April 2023

	Note	**Unaudited As at 30 April 2023 £m**	Unaudited As at 30 April 2022 £m	Audited As at 31 Oct 2022 £m
Non-current assets				
Goodwill		**119.1**	113.2	118.1
Development costs		**32.7**	31.8	34.6
Other intangible assets		**11.2**	13.1	11.4
Property, plant and equipment		**222.3**	210.2	231.3
Retirement benefit surplus		**10.3**	18.1	11.2
Deferred tax		**35.8**	20.1	32.3
		431.4	406.5	438.9
Current assets				
Inventories		**116.2**	96.3	99.6
Trade and other receivables		**72.9**	82.5	61.1
Cash and cash equivalents	11	**6.9**	9.9	19.8
Derivative financial instruments	8	**0.8**	1.0	0.7
		196.8	189.7	181.2
Total assets		**628.2**	596.2	620.1
Current liabilities				
Borrowings	11	**(1.0)**	-	-
Lease liabilities	11	**(1.5)**	(1.6)	(1.8)
Trade and other payables		**(120.1)**	(115.6)	(98.2)
Provisions		**(1.1)**	(2.6)	(1.6)
Current tax		**(5.0)**	(8.9)	(7.9)
Derivative financial instruments	8	**(3.2)**	(2.3)	(4.2)
		(131.9)	(131.0)	(113.7)
Non-current liabilities				
Borrowings	11	**(25.6)**	(24.9)	(20.9)
Lease liabilities	11	**(3.7)**	(1.8)	(4.2)
Provisions		**(16.1)**	(15.3)	(16.8)
Deferred tax		**(51.1)**	(34.7)	(45.2)
Derivative financial instruments	8	**(0.1)**	(0.2)	(1.1)
Preference shares	11	**(0.1)**	(0.1)	(0.1)
		(96.7)	(77.0)	(88.3)
Total liabilities		**(228.6)**	(208.0)	(202.0)
Net assets		**399.6**	388.2	418.1
Equity				
Share capital		**2.8**	2.9	2.8
Share premium account		**307.8**	307.1	307.7
Special capital reserve		**12.9**	12.9	12.9
Translation reserve		**(16.8)**	(9.5)	7.5
Retained earnings		**92.9**	74.8	87.2
Total equity		**399.6**	388.2	418.1

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the half year to 30 April 2023

	Note	**Unaudited Half year to 30 April 2023 £m**	Unaudited Half year to 30 April 2022 £m	Audited Year to 31 Oct 2022 £m
Cash flows from operating activities				
Cash generated from underlying operations	10	**22.9**	43.3	90.1
Cash impact of non-underlying items		**(1.0)**	(0.2)	(1.1)
Cash flows from operating activities		**21.9**	43.1	89.0
Tax paid		**(4.9)**	(4.7)	(8.5)
Net cash inflow from operating activities		**17.0**	38.4	80.5
Cash flows from investing activities				
Purchases of intangible assets		**(0.6)**	(2.3)	(3.0)
Purchases of property, plant and equipment		**(11.6)**	(15.3)	(31.5)
Proceeds on disposal of property plant and equipment		**-**	6.0	6.0
Acquisition of subsidiary net of cash acquired		**(7.2)**	-	-
Short-term funding to defined benefit pension scheme		**2.0**	-	(2.0)
Net cash outflow from investing activities		**(17.4)**	(11.6)	(30.5)
Cash flows from financing activities				
Dividends paid	7	**(10.8)**	(9.1)	(14.4)
Purchase of own shares		**(5.4)**	(7.0)	(7.0)
Proceeds from issue of shares		**0.1**	-	0.1
Finance expense paid		**(1.1)**	(0.4)	(1.3)
Drawdown of borrowings		**26.5**	16.0	30.0
Repayments of borrowings		**(22.1)**	(21.0)	(41.0)
Payment of lease liabilities		**(0.5)**	(1.0)	(2.2)
Net cash outflow from financing activities		**(13.3)**	(22.5)	(35.8)
(Decrease)/increase in cash and cash equivalents		**(13.7)**	4.3	14.2
Cash and cash equivalents at beginning of period/year		**19.8**	5.4	5.4
Effect of foreign exchange rate changes		**(0.2)**	0.2	0.2
Cash and cash equivalents at end of period/year (including bank overdraft)	11	**5.9**	9.9	19.8

NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of preparation

The condensed set of financial statements do not constitute statutory accounts as defined by section 434 of the Companies Act 2006 and were approved by the Board of Directors on 6 June 2023.

Full accounts for the year ended 31 October 2022, 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. These were prepared in accordance with UK-adopted international accounting standards ("UK-adopted IFRS") in conformity with the requirements of the Companies Act 2006.

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.

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 2022 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 2024, 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 inflationary pressures, supply chain challenges, interest rates and foreign exchange rates;
- the status of the Group's financial arrangements and associated covenant requirements;
- progress made in developing and implementing 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 and considered the principal risks and uncertainties referred to in note 16. These sensitised scenarios show headroom on all covenant test dates for the foreseeable future.

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, impairments 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 2022 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 2022.

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.

<u>Recent accounting developments</u>
The following International Financial Reporting Committee ("IFRIC") interpretations, amendments to existing standards and new standards were adopted in the period ending 30 April 2023 but have not materially impacted the reported results or the financial position:

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

2. SEGMENTAL ANALYSIS

Period to 30 April 2023 (unaudited)

	Sensors & Information £m	Countermeasures & Energetics £m	Unallocated* £m	Group £m
Revenue	**97.9**	**114.2**	**-**	**212.1**
Segment result before depreciation, amortisation and non-underlying items	**20.8**	**22.3**	**(7.4)**	**35.7**
Depreciation	**(1.8)**	**(7.1)**	**(0.2)**	**(9.1)**
Amortisation	**-**	**-**	**-**	**-**
Segmental underlying operating profit	**19.0**	**15.2**	**(7.6)**	**26.6**
Amortisation of acquired intangibles	**(1.1)**	**(1.1)**	**-**	**(2.2)**
Non-underlying items	**(1.8)**	**-**	**0.4**	**(1.4)**
Segmental operating profit	**16.1**	**14.1**	**(7.2)**	**23.0**

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

Year ended 31 October 2022 (audited)

	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

* Unallocated items are specific corporate level costs that cannot be allocated to a business segment.

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.

	Unaudited Half year to 30 April 2023 £m	Unaudited Half year to 30 April 2022 £m	Audited year ended 31 October 2022 £m
Gain/(loss) on the movement in the fair value of derivative financial instruments	**0.4**	(1.6)	(4.1)
Acquisition expenses	**(1.8)**	(0.5)	(2.0)
Impact of non-underlying items on EBITDA	**(1.4)**	(2.1)	(6.1)
Intangible amortisation arising from business combinations	**(2.2)**	(2.1)	(4.6)
Impact of non-underlying items on operating profit and profit before tax	**(3.6)**	(4.2)	(10.7)
Tax impact of non-underlying items	**0.6**	0.5	1.3
Impact of non-underlying items on profit after tax	**(3.0)**	(3.7)	(9.4)

Derivative financial instruments
Included in non-underlying items is a £0.4m gain (H1 2022: £1.6m loss, 2022: £4.1m loss) on the movement in fair value of derivative financial instruments. This is excluded from underlying earnings to ensure the recognition of the gain or loss on the derivative matches the timing of the underlying transaction.

Acquisition expenses
Included in non-underlying items is £1.8m (H1 2022: £0.5m, 2022: £2.0m) of acquisition expenses. This includes £1.7m (H1 2022: £0.5m, 2022: £1.0m) relating to deferred consideration contingent on continued employment of the former owners of Cubica, and in FY23 only, Geollect, 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 relates to the cost of acquiring the respective businesses as opposed to representing a market rate cost for ongoing employment of the former owners. The remaining expense of £0.1m (H1 2022: £nil, 2022: £1.0m) primarily includes professional fees incurred in relation to the Group's mergers and acquisitions activity during the period. 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 £2.2m (H1 2022: £2.1m, 2022: £4.6m). 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 2023, the tax impact of non-underlying items comprises a £0.6m tax credit (H1 2022: £0.5m credit, 2022: £1.3m credit) on the above non-underlying items.

4. SEASONALITY OF REVENUE

Revenue in the Countermeasures & Energetics segment is expected to be 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, public holidays, 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.

5. TAX

	Unaudited period to 30 April 2023 £m	Unaudited period to 30 April 2022 £m	Audited year ended 31 October 2022 £m
Underlying tax charge	**3.9**	2.9	5.7
Tax impact of non-underlying items	**(0.6)**	(0.5)	(1.3)
Total statutory tax charge	**3.3**	2.4	4.4

Income tax charge 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.

The effective tax rate on underlying profit before tax for the period is a charge of 15.2% (H1 2022: 8.8%, 2022: 9.1%). The effective tax rate is higher than the 2022 effective tax rate as the charge in the previous period was reduced by a credit for the recognition of a deferred tax asset in respect of future US interest deductions that were previously unrecognised.

6. EARNINGS PER SHARE

Earnings per share is based on the average number of shares in issue, excluding own shares held, of 281,708,913 (H1 2022: 280,228,972, 2022: 280,506,245). Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 288,618,553 (H1 2022: 287,754,943, 2022: 288,218,004).

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

			Unaudited Half year to 30 April 2023			Unaudited Half year to 30 April 2022
	£m	**Basic EPS (pence)**	**Diluted EPS (pence)**	£m	Basic EPS (pence)	Diluted EPS (pence)
Underlying profit after tax	**21.7**	**7.7**	**7.5**	30.2	10.8	10.5
Non-underlying items	**(3.0)**			(3.7)		
Total profit after tax	**18.7**	**6.6**	**6.5**	26.5	9.5	9.2

			Audited year to 31 October 2022
	£m	Basic EPS (pence)	Diluted EPS (pence)
Underlying profit after tax	56.8	20.2	19.7
Non-underlying items	(9.4)		
Total profit after tax	47.4	16.9	16.4

7. DIVIDENDS

At the Annual General Meeting on 15 March 2023 the shareholders approved a final dividend in respect of the year ended 31 October 2022 of 3.8p per ordinary share (2022: 3.2p). This was paid on 14 April 2023 to shareholders on the register on 24 March 2023 and totalled £10.8m (H1 2022: £9.1m).

The Board also declared an interim dividend in respect of FY23 of 2.3p per ordinary share (2022: 1.9p) which will be paid on 8 September 2023 to shareholders on the register on 18 August 2023. The estimated cash value of this dividend is £6.5m (2022: £5.3m).

8. FINANCIAL INSTRUMENTS

As at 30 April 2023, 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 2023, the total fair value of forward foreign exchange contracts recognised in the condensed consolidated balance sheet were an asset of £0.8m (H1 2022: £1.0m, 2022: £0.7m), a current liability of £3.2m (H1 2022: £2.3m, 2022: £4.2m) and a non-current liability of £0.1m (H1 2022: £0.2m, 2022: £1.1m).

9. RELATED PARTY TRANSACTIONS

Past transactions with related parties are shown on page 151 of the 2022 Annual Report. There were no significant related party transactions during the current period requiring disclosure.

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.

10. CASH FLOWS FROM UNDERLYING OPERATIONS

	Unaudited Half year to 30 April 2023 £m	Unaudited Half year to 30 April 2022 £m	Audited Year to 31 Oct 2022 £m
Operating profit	**23.0**	29.3	53.3
Amortisation of development costs	**-**	-	0.1
Amortisation of intangible assets arising from business combinations	**2.2**	2.1	4.6
Amortisation of patents and licenses	**-**	-	0.1
Impairment of development costs	**-**	-	2.2
Loss on disposal of non-current assets	**-**	-	(1.9)
Depreciation of property, plant and equipment	**9.1**	9.3	18.1
Non-cash movement of non-underlying items	**1.4**	2.1	6.1
Share-based payment expense	**1.5**	4.8	6.4
Operating cash flows before movements in working capital	**37.2**	47.6	89.0
Increase in inventories	**(23.9)**	(9.4)	(6.4)
(Increase)/decrease in trade and other receivables	**(14.6)**	(20.3)	4.5
Increase in trade and other payables	**24.2**	25.3	2.9
Increase in provisions	**-**	0.1	0.1
Operating cash flow from underlying operations	**22.9**	43.3	90.1

11. ANALYSIS OF NET DEBT

	As at 1 Nov 2022 £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	**As at 30 April 2023 £m**
Cash and cash equivalents*	19.8	(13.7)	-	(0.2)	**5.9**
Debt due after one year	(20.9)	(4.4)	(0.3)	-	**(25.6)**
Lease liabilities	(6.0)	0.5	(0.3)	0.6	**(5.2)**
Preference shares	(0.1)	-	-	-	**(0.1)**
	(7.2)	(17.6)	(0.6)	0.4	**(25.0)**

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 at the lenders' discretion.

The Group had £130.2m (H1 2022: £132.0m, 2022: £136.7m) 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 0.33 times (covenant limit of 3 times) and the half year interest cover ratio was 36 times (covenant floor 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 2023	**Closing rate H1 2023**	Average rate H1 2022	Closing rate H1 2022	Average rate 2022	Closing rate 2022
US dollar	**1.24**	**1.26**	1.31	1.26	1.23	1.15
AU dollar	**1.85**	**1.90**	1.79	1.77	1.75	1.80
NOR krone	**12.71**	**13.44**	11.66	11.70	11.82	11.97

The translation of foreign currency items in the financial statements are dependent on the prevailing foreign exchange rates. For the period ended 30 April 2023, a 10 cent increase in the US dollar exchange rate would have decreased reported underlying operating profit for the first half of FY23 by approximately £0.2m.

13. ACQUISITIONS

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 operating results and assets and liabilities of the acquired company have been consolidated from 7 December 2022.

The acquisition has been completed for an initial purchase consideration of £7.3m, funded from Chemring's existing bank facilities.

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. In accordance with IFRS 3 these costs will be treated as post acquisition expenses and accounted for as equity settled share based payments under IFRS 2. See note 3 for further details. Acquisition-related costs of £0.1m have been classified as non-underlying costs in the statement of profit or loss in the reporting period ending 30 April 2023.

Since acquisition to 30 April 2023, Geollect contributed revenue of £0.5m and an adjusted operating profit of £0.1m to the Group's results. If the acquisition had occurred on 1 November 2022, we estimate that its revenue would have been £0.6m, and adjusted operating profit for the year would have been £0.1m. In determining these amounts, we have assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 November 2022.

Details of the purchase consideration are:

	£m
Cash paid	7.2
Loans assumed	0.1
Total purchase consideration	**7.3**

The provisionally determined fair values of the assets and liabilities of Geollect as at the date of acquisition are as follows:

	Provisional fair value £m
Trade and other receivables	0.1
Trade and other payables	(0.7)
Loans	(0.1)
Intangible assets: customer relationships	1.2
Intangible assets: technology	1.4
Deferred tax liability	(0.6)
Net identifiable assets	**1.3**
Add: goodwill	6.0
Net assets acquired	**7.3**

Goodwill is attributable to the skills and technical talent of the assembled workforce and synergies expected to arise after the Group's acquisition of the new subsidiary. None of the goodwill is expected to be deductible for tax purposes. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

14. 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.

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.

15. EVENTS AFTER THE BALANCE SHEET DATE

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

16. PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results have not changed significantly from those set out in the Group's 2022 Annual Report and Accounts. 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 2022 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.

17. 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 2023 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 2023 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) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ("ISRE (UK) 2410") issued 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.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention that causes us to believe that the directors have inappropriately adopted the going concern basis of accounting, or that the directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern, and the above conclusions are not a guarantee that the group will continue in operation.

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 annual financial statements of the group are 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.

In preparing the condensed set of financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

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. Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

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.

James Childs-Clarke
for and on behalf of KPMG LLP
Chartered Accountants

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6 June 2023