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Chemring Group PLC
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CHEMRING GROUP PLC 4 JUNE 2024

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

INTERIM RESULTS FOR THE SIX MONTHS TO 30 APRIL 2024

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

	As reported		*At H1 2023 exchange rates*		
	H1 2024	***Change***	*H1 2024*	*Change*	H1 2023*
Continuing operations					
Order book (£m)	**1,040.6**	**+39%**	*1,046.7*	*+40%*	749.5
Order intake (£m)	**344.5**	**+2%**	*351.0*	*+4%*	338.2
Revenue (£m)	**223.4**	**+8%**	*226.1*	*+10%*	206.3
Underlying EBITDA**(£m)	**35.5**	**+1%**	*35.7*	*+1%*	35.2
Underlying operating profit** (£m)	**25.0**	**-5%**	*25.1*	*-5%*	26.3
Underlying profit before tax** (£m)	**22.7**	**-10%**	*22.8*	*-10%*	25.3
Underlying diluted earnings per share** (pence)	**6.6**	**-11%**	*6.6*	*-11%*	7.4
Statutory operating profit (£m)	**17.5**	**-24%**	*17.5*	*-24%*	23.1
Interim dividend per share (pence)	**2.6**	**+13%**			2.3
Net debt at 30 April (£m)	**75.3**	**+201%**	*75.2*	*+201%*	25.0

Key highlights

- Record H1 order intake of £345m and order book of £1,041m, the highest in Chemring's history, providing excellent medium-term revenue coverage
- H1 2024 was in line with the Board's expectations:
  - Revenue growth of 8%, driven by strong performance at Roke, up 19%, and growth in our specialist energetic materials businesses offset by a weaker period for Countermeasures
  - Underlying operating profit margin of 11.2% (H1 2023: 12.7%) primarily reflecting the impact of operational challenges at our Tennessee Countermeasures business in the period
  - Improved cash conversion of 83% (H1 2023: 64%) as focus on working capital management maintained
- Awarded £90m of grant funding in support of our capex investment to increase the capacity of our Norwegian site, amid unprecedented levels of demand for its products
- Strategy to increase overall investment in our Energetics capacity expansion plan from £120m to £200m, excluding grant funding. Targeting increased revenues (£100m p.a.) and operating profit (£30m p.a.) in 2028
- Good progress made on capital projects to date, with £34m of capex spent in total during the period, and customers increasingly moving to long-term partnering agreements
- A further £28m deployed into the £50m share buyback programme announced on 1 August 2023
- Net debt was £75.3m (H1 2023: £25.0m), with the increase as expected due to our decision to invest in capex. Net debt to underlying EBITDA of 0.85 times (H1 2023: 0.36 times) remains below the Group's internal target of less than 1.5 times cover
- Interim dividend per share of 2.6p, up 13% (H1 2023: 2.3p)
- The Board's expectations for 2024 are unchanged, with heavier H2 weighting of operating profit as previously communicated in February 2024. Approximately 93% (H1 2023: 90%) of expected H2 revenue was in the order book at 30 April 2024
- The Group has the ambition to increase annual revenue to c.£1bn by 2030
- The Group's longer-term growth prospects are strong, underpinned by robust activity levels, our leading technological offerings, our people, high barriers to entry, and the investments we continue to make in our strong, high-quality business

Michael Ord, Chemring Group Chief Executive, commented:

"The momentum seen in 2023 has continued with another period of record order intake and an order book of over £1bn, the highest in Chemring's history. This strong order intake across both sectors has further increased our order cover for the second half of 2024 to 93% and the Board's expectations for the full year are unchanged.

"The increase in geo-political tensions around the world is driving a fundamental rearmament upcycle which is expected to last for at least the next decade. This visibility, together with the support of grant funding and our customers' desire to move to long-term partnering agreements, gives us the confidence to invest further in capacity and capability, reinforcing Chemring's position as a key supplier to NATO, and positioning the Group well for the future. We now have the ambition to increase annual revenue to c.£1bn by 2030."

Notes:

* H1 2023 comparative values have been re-presented on the basis of the classification of operations as discontinued. See note 13 for a reconciliation of the reported comparative values to the re-presented comparative values.

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

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

EBITDA is defined as operating profit before interest, tax, depreciation and amortisation. Reference to constant currency relates to the re-translation of H1 2024 financial information at the H1 2023 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 - continuing operations:	**Underlying**	**Non-underlying**	**Statutory**
EBITDA (£m)	35.5	(6.5)	29.0
Operating profit (£m)	25.0	(7.5)	17.5
Profit before tax (£m)	22.7	(7.5)	15.2
Tax charge on profit (£m)	(4.3)	1.3	(3.0)
Profit after tax (£m)	18.4	(6.2)	12.2
Basic earnings per share (pence)	6.7	(2.3)	4.4
Diluted earnings per share (pence)	6.6	(2.3)	4.3
Group - discontinued operations:			
(Loss)/profit after tax (£m)	(0.5)	4.7	4.2
Segments - continuing operations:			
Sensors & Information EBITDA (£m)	24.5	(1.7)	22.8
Sensors & Information operating profit (£m)	21.6	(2.1)	19.5
Countermeasures & Energetics EBITDA (£m)	19.4	-	19.4
Countermeasures & Energetics operating profit (£m)	11.8	(0.6)	11.2

The adjustments comprise:

- amortisation of acquired intangibles of £1.0m (H1 2023: £1.8m, 2023: £3.0m)
- gain on the movement in the fair value of derivative financial instruments of £1.1m (H1 2023: £0.4m gain, 2023: £1.4m gain)
- exceptional items of £7.6m (H1 2023: £1.8m, 2023: £22.2m), comprising:
  - acquisition expenses of £1.7m (H1 2023: £1.8m, 2023: £3.7m), relating solely to deferred consideration accounted for as a post-acquisition expense under IFRS 2
  - expense of £5.0m (H1 2023: £nil, 2023: £nil) in relation to the defined benefit pension buy-in and buy-out. This comprises the settlement loss following the buy-in transaction agreed on 28 November 2023, as well as ongoing costs incurred in relation to the buy-in process which will eventually conclude with a buy-out of the scheme
  - costs relating to the change in senior management positions within the Group of £0.9m (H1 2023: £nil, 2023: £nil)
  - impairment of Chemical Detection assets £nil (H1 2023: £nil, 2023: £18.5m)
- tax impact of adjustments of £1.3m credit (H1 2023: £0.5m credit, 2023: £3.8m credit)
- discontinued operations in respect of the Explosive Hazard Detection ("EHD") business, net of tax, of £4.7m profit (H1 2023: £0.3m loss, 2023: £31.4m loss) which includes the reversal of an impairment of inventory, following an agreement being reached to sell certain assets related to the EHD business.

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

www.chemring.com

Analyst meeting

An analyst meeting will take place at 09.00 (UK time) on Tuesday 4 June 2024 at the offices of Investec Bank plc, 30 Gresham St, London EC2V 7QP. To confirm attendance please contact MHP Group: chemringplc@mhpgroup.com.

Presentation

The presentation slides and a live audio webcast of the presentation to analysts will be available at the Chemring Group results centre www.chemring.com/investors/results-centre at 09.00 (UK time) on Tuesday 4 June 2024.

Photography

Original high resolution photography is available to the media by contacting MHP Group: chemringplc@mhpgroup.com .

INTERIM MANAGEMENT REPORT

Group overview

Order intake for H1 2024 was strong in both segments, up 2% to £345m (H1 2023: £338m, 2023: £756m) and has contributed to a record order book at 30 April 2024 of £1,041m (H1 2023: £750m, 2023: £922m), the highest in Chemring's history.

H1 2024 performance was in line with the Board's expectations. Revenue was up 8% to £223.4m (H1 2023: £206.3m, 2023: £472.6m), driven by strong performance at Roke, up 19%, and growth in our specialist energetic materials businesses offset by a weaker period for Countermeasures.

Underlying operating profit was down 5% to £25.0m (H1 2023: £26.3m, 2023: £69.2m) resulting in an underlying operating margin of 11.2% (H1 2023: 12.7%, 2023: 14.6%). The decrease compared to H1 2023 primarily reflects the operational challenges experienced at our Tennessee Countermeasures business, where (as previously highlighted) production was disrupted due to adverse weather conditions and there were delays in the ramp up of its automated facility.

Total finance expense was higher at £2.3m (H1 2023: £1.0m, 2023: £1.3m) reflecting both the increase in interest rates versus the comparative period and the higher level of net debt.

Underlying profit before tax was £22.7m (H1 2023: £25.3m, 2023: £67.9m). The effective tax rate on the underlying profit before tax increased to 18.9% (H1 2023: 15.0%, 2023: 15.0%) reflecting the full year effect of the increase in the UK corporation tax rate and an increased weighting of UK profits as Roke continues to grow. The underlying diluted earnings per share was 6.6p (H1 2023: 7.4p, 2023: 20.0p).

Net debt has increased since the year end to £75.3m (H1 2023: £25.0m, 2023: £14.4m) due primarily to the strategic decision to invest in capex to increase capacity in our specialist energetic materials businesses and the continuation of the share buyback programme that was launched in August 2023. £34.2m has been invested in capex during the period, while £27.9m has been returned to shareholders through the share buyback.

Underlying operating cash inflow of £29.4m (H1 2023: £22.4m, 2023: £80.0m) represented 83% (H1 2023: 64%, 2023: 90%) of underlying EBITDA. The strong operating cash performance reflects our continued focus on commercial contracting and disciplined working capital management. Our two-year rolling average cash conversion has been 95%, showing the ongoing focus on working capital improvements is delivering long-term, sustainable positive results.

Of the Group's £1,041m order book at 30 April 2024, approximately £270m is scheduled for delivery during the second half of 2024. This represents cover of approximately 93% (H1 2023: 90%) of expected second half revenue, leaving £771m of order book to be delivered in 2025 and beyond. At this stage, this provides approximately 90% (H1 2023: 78%) cover of expected 2025 revenue and approximately 65% cover of expected 2026 revenue in Countermeasures & Energetics. In Sensors & Information this provides approximately 30% (H1 2023: 30%) cover of expected 2025 revenue.

Statutory operating profit was £17.5m (H1 2023: £23.1m, 2023: £45.4m) and after statutory finance expenses of £2.3m (H1 2023: £1.0m, 2023: £1.3m), statutory profit before tax was £15.2m (H1 2023: £22.1m, 2023: £44.1m). The statutory profit after tax from continuing operations was £12.2m (H1 2023: £18.8m, 2023: £37.7m) giving a statutory basic earnings per share from continuing operations of 4.4p (H1 2023: 6.7p, 2023: 13.4p).

A reconciliation of underlying to statutory profit measures is provided in note 3. The non-underlying costs relate to the amortisation of acquired intangibles, the gain on the movement in the fair value of derivative financial instruments and exceptional items, plus the tax impact associated with these adjustments. In H1 2024, the most significant non-underlying cost was the exceptional expense relating to the defined benefit pension buy-in and buy-out transaction, following the buy-in agreement being entered into in November 2023. This represents £5.0m of the total £7.5m non-underlying loss that has been excluded from underlying operating profit and underlying profit before tax.

The EHD division of our US Sensors business was treated as discontinued under IFRS 5 in 2023 and as a result all H1 2023 comparatives have been re-presented. A full reconciliation of this is provided in note 13.

Markets

The elevated levels of geopolitical tensions characterised by the continuing Russia-Ukraine war, the renewed armed conflict between Israel and Hamas-led militant groups in the Middle East, and an increasingly assertive China, are driving defence and national security budget increases of differing levels. These uncertainties are also contributing to a strengthening of international alliances, with existing, and new NATO members responding to the Ukraine crisis which is now in its third calendar year.

The US continues to be the largest defence and security market in the world and remains opportunity-rich for the Group's capabilities. The FY25 Budget Request from the Biden-Harris Administration for the US Department of Defense ("US DoD") is US$849.8bn, with investment in advanced capabilities and operational concepts across all domains, including significant resources allocated to enhance missile and space capabilities. Moreover, there is a drive to strengthen global alliances and partnerships for enhancing security. The Group's differentiated capabilities in active-cyber, space, hypersonic and advanced weapons, electronic warfare ("EW") and bio-security/surveillance give us the opportunity to compete in this large and growing market.

Investment is ongoing in the UK to enhance national resilience, through reinforced supply chains and expanded industrial capacity, in the priority areas highlighted by the 2023 Integrated Review Refresh (IRR23). Simultaneously, the UK defence customer continues to support Ukraine, and is embarking on several initiatives under the new Integrated Procurement Model to optimise acquisition. Additionally, the Prime Minister recently announced that UK defence spending will increase to 2.5% of GDP by 2030, with an intent to spend a cumulative extra £75bn over the next six years, giving an annual defence budget of £87bn in 2030. Other commitments include a £10bn investment in munitions to support industry moving to a "war footing" production ramp-up, and "at least" 5% of the defence budget reserved for R&D.

Against this backdrop we are seeing increased long-term demand levels for our differentiated Countermeasures & Energetics capabilities. This is particularly prevalent in our three leading Energetics businesses where we are seeing unprecedented demand levels for speciality energetic materials and energetic propulsion devices, and where Chemring is a key supplier to NATO.

Maintaining strategic advantage against adversaries in an increasingly digital defence and security environment, will demand rapid, large-scale, data exploitation and multi-domain integration. This is driving ever increasing demand for Sensors & Information capabilities, especially Roke's cutting-edge technology solutions in active-cyber, EW, artificial intelligence ("AI") and open-source intelligence.

European allies (both NATO and non-NATO members) are boosting defence investment and increasing industrial production capacities to address the replacement of defence capabilities provided to Ukraine, modernise their own capabilities, and elevate stockpile and readiness levels. Chemring is investing to respond to this demand.

Strategy

Chemring is a technology-differentiated, mid-tier company operating in niche markets with high barriers to entry. Our strategy looks to leverage our market-leading, technology capabilities to protect people, platforms, and information against constantly changing threats. As part of our value proposition, we will continue to invest to increase our capabilities, capacity and in developing intellectual property in growth areas of defence and national security, where we enjoy trust-driven, long-term relationships with our customers - often acting as their sole-source provider.

The Sensors & Information sector is a major focus area for the Group. Our portfolio is now aligned with our strategy, with our capabilities being highly relevant to our customers' investment priorities as they address a rapidly changing threat environment. We will continue to grow our advanced product and service offerings, where our mission understanding, and multi-domain integration capabilities position us well to deliver enhanced customer value.

Our Countermeasures & Energetics sector strategy is focused on operational excellence, and we are investing to strengthen and expand our world-leading positions. Russia's invasion of Ukraine in February 2022 brought a shift to the international defence landscape, with customers prioritising significant elements of their defence spend to enhance and replenish their munition and complex weapon stockpiles. This has resulted in unparalleled demand levels for our specialist energetic capabilities, and we have an ongoing investment programme to modernise and create more manufacturing capacity to respond to this demand. In Countermeasures, where we expect robust but steady demand for our air and naval countermeasures over the next five years, even in the absence of force deployment, we will continue to advance modernisation and automation across our facilities. Additionally, we promote technology sharing and enhanced manufacturing excellence throughout the Group whenever possible.

In recent years Chemring has been focused on successfully building a stronger, higher-quality and more resilient business. The balance sheet has also been strengthened, providing the Group with increased optionality. Our disciplined approach to capital allocation prioritises organic and inorganic investment, focused M&A, a growing and sustainable dividend, other returns to shareholders and a prudent approach to leverage. Favourable market conditions for our specialist energetic materials businesses has underpinned the Group's strategic decision to approve a three-year investment plan to increase capacity. In August 2023 we announced the launch of a share buyback programme of up to £50m, with £37m returned to shareholders to date. If the share buyback is not completed by the previously disclosed timing of July 2024, the Board intend to extend the completion date to the announcement date of the 2024 full year results. We maintain our commitment to balance near-term performance with longer-term growth and value creation.

The Group will continue to assess and pursue, strategy-led, bolt-on acquisitions, with the Board having a clear and consistent set of focused criteria for allocating our capital that any target company must satisfy. Acquisitions represent one option we have for accelerating our growth in expanding and high-priority defence and national security markets such as cyber, information advantage, and US space and missiles, and we have a robust pipeline of technology and capability targets for evaluation.

Chemring is committed to building a strong and sustainable company. Going forward we will continue to focus on developing our people and infrastructure to deliver further future growth. We are committed to a rigorous focus on safety and environmental sustainability and to further enhancing our strong track record in operational performance and execution. Our vision for the future is to be our customers preferred supplier, operating in niche markets with high barriers to entry and where we enjoy sole-source or market leading positions.

Segmental review - Sensors & Information

Performance

Order intake in the period was down slightly at £96m (H1 2023: £100m, 2023: £215m) and revenue increased by 15% to

£105.7m (H1 2023: £92.1m, 2023: £187.0m) with strong growth at Roke, up 19%, offset by a slight reduction at our US sensors business, where revenue is expected to have a second half bias driven by the timing of deliveries for its Joint Biological Tactical Detection System ("JBTDS") low rate initial production ("LRIP") contract.

Underlying operating profit increased by 16% to £21.6m (H1 2023: £18.7m, 2023: £34.2m) and the underlying operating margin improved slightly to 20.4% (H1 2023: 20.3%, 2023: 18.3%) despite the continuing investment in people, infrastructure and product development in Roke to position it well for its future exciting growth ambition.

Roke continues to win a number of contracts as the prime contractor and therefore order intake and revenue contains an element of "pass-through". For H1 2024, "pass-through" order intake was £7m (H1 2023: £20m, 2023: £27m) and revenue was £17m (H1 2023: £17m, 2023: £32m). Excluding Roke "pass-through" revenue, the underlying operating margin for Sensors & Information would have been 24.4% (H1 2023: 24.9%, 2023: 22.1%).

A fundamental characteristic of the increased threat environment and of current conflicts, notably Russia's invasion of Ukraine and Hamas' attack on Israel, is how conventional wars are blending in the use of new technologies and tactics, and how agility and being able to adapt at pace, are essential to defeat both established and emerging threats. Government customers are budgeting and investing accordingly, and in this multi-domain, integrated environment, Roke's capabilities in active cyber defence, EW, sensors, information processing, autonomy, and AI are seeing strong demand, and making an important contribution to supporting vital missions.

In Roke's defence markets, the increasing importance of Cyber and Electromagnetic Activity ("CEMA") in today's threat environment, has led to a growing number of enquiries for Roke's suite of world-leading EW products. A notablehighlight during the period were further wins in the area of EW with awards received from customers in Sweden and Japan. The order for ten Resolve EW systems to Japan is Roke's first into the East-Asia region, securing a high quality reference customer. Roke currently has requests for quotation in excess of £200m for its defence products, and is well positioned to win several multi-year orders.

Roke also received a £10m increase to the Project ZODIAC award received in September 2023. ZODIAC is the backbone of the British Army's Land Intelligence, Surveillance, Target Acquisition, and Reconnaissance ("ISTAR") Programme which will deliver an integrated ISTAR system to transform how the Army undertakes data-led decision-making to gain operational advantage. In total, Roke's ZODIAC programme contract awards now stand at £50m which will be delivered over the next two years.

A particular highlight in this period is the progress made by Roke's new Intelligence business area in building a position in the fast growing, embryonic, opportunity-rich Open-Source Intelligence ("OSINT") market. Roke's unique approach to this market integrates human expertise and intelligence tradecraft with cutting-edge technology including AI, machine learning and advanced sensors. Roke's capabilities and technologies are combining to create a highly differentiated intelligence offering, and while the initial domain focus is on Geospatial Intelligence ("GEOINT") to commercial clients with a requirement for maritime domain awareness, strong potential exists to cross-sell this capability to other Roke customers.

2024 represents a transitional period for our US Sensors business as we focus on our biological detection capabilities. Deliveries under the full rate production phase of the Enhanced Maritime Biological Detection System ("EMBD") Program of Record have continued as planned and in April 2024 we received a fourth option quantity exercised under the sole source $99m Indefinite Delivery / Indefinite Quantity contract valued at $15m, with deliveries expected to be made in 2025. On the JBTDS program, having been awarded a LRIPcontract in September 2023, material procurement and production has gathered pace, with first deliveries expected to be made early in the second half of the year.

Opportunities and outlook

The focus for Sensors & Information continues to be on expanding the Group's product, service and capability offerings to government and commercial customers in the technology-driven areas of national security, AI and machine learning, tactical EW, information security and biological detection.

In the UK, the national security and defence markets are being increasingly shaped by a rapidly changing threat environment with AI, EW, and data proliferation of particular focus. This is driving increased investment as customers look to modernise their capabilities at pace.

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. With strong positions in markets with high barriers to entry and where customers have unique profiles, our ambition remains to organically grow Roke's revenues to greater than £250m by 2028, while maintaining strong margin performance. We will also continue to explore bolt-on sized, strategy-led, acquisitions that can accelerate our growth strategy for Roke.

The order book for Sensors & Information at 30 April 2024 is £158m (H1 2023: £153m, 2023: £171m). While the Roke business remains a relatively shorter-cycle order book business, the segment has orders of approximately £82m for delivery in the second half of the year, representing 83% (H1 2023: 72%) coverage of expected H2 revenue. Coverage of expected 2025 revenue is approximately 30%.

Segmental review - Countermeasures & Energetics

Performance

In Countermeasures & Energetics, order intake was £249m, up 5% (H1 2023: £238m, 2023: £541m) with multi-year orders received across the sector.

In the Energetics sector we continue to see increased levels of activity and demand in the propellants and energetic materials markets as customers re-evaluate their operational usage and stockpile requirements associated with traditional defence capabilities. As a result, our specialist energetic materials businesses, which design and manufacture high precision engineered devices and specialist materials, have seen strong customer demand with order intake increasing by 3% to £155m against an elevated comparative number in the prior period (H1 2023: £150m, 2023: £358m).

We have seen growing demand for precision engineered devices for space and missile applications, with our Chicago business receiving a significant level of orders in the period. These included an order from the United Launch Alliance to develop initiators and an order from Boeing in relation to the Harpoon missile program, with the combined value of both orders totalling over $20m. In April our Chicago business successfully completed qualification testing for the Blue Origin Standard Initiator and is now the sole provider for this device. This initiator will be common to all Blue Origin spacecraft including the upcoming New Glenn launch vehicle.

Order intake for our Countermeasures business was robust at £94m. Notable wins include the $31m contract that Chemring Australia secured for the supply of MJU-68/B infrared countermeasures used on the F-35 Joint Strike Fighter.

Revenue for Countermeasures & Energetics was up slightly by 3% to £117.7m (H1 2023: £114.2m, 2023: £285.6m) as growth in the specialist energetic materials businesses offset a weaker period for countermeasures. Underlying operating profit fell to £11.8m (H1 2023: £15.2m, 2023: £50.5m) and the underlying operating margin decreased to 10.0% (H1 2023: 13.3%, 2023: 17.7%). The reduction in profitability was primarily caused by the operational challenges experienced at our Tennessee countermeasures business, where (as previously highlighted) production was disrupted due to adverse weather conditions and there were delays in the ramp up of its automated facility. The underlying operating profit margin was also adversely affected by deliveries made on a legacy contract from 2016 for the supply of countermeasures, which is expected to complete in the second half of the financial year. Significant progress has been made in recent weeks to overcome the operational challenges experienced, and we expect the ramp up of the facility to accelerate in the second half of the financial year.

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 where we see undiminishing demand for our air and naval decoy products, even in the absence of force deployment. Our focus on seeking to achieve appropriate margins, mindful of financial constraints from our customers, will continue.

The Group's specialist 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 energetics has enabled our Norwegian business to work proactively with its customer base on long-term contracting models, providing significantly improved visibility.

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 and in 2023 we announced a three-year investment programme through to 2026 to capitalise on this long-term demand. As the strong market conditions continue, we have taken the decision to increase the capital investment programme from £120m to £200m, which we expect to increase revenue by £100m per annum and operating profit by £30m per annum in 2028. In addition to this, in March 2024 we announced that our Norwegian business had been awarded grant funding of £90m in support of its capacity expansion projects, meaning that the net investment required by the Group will now be £110m in total.

We now expect to receive about £30m of the grant funding in the second half of the year upon submission of detailed technical plans, with subsequent payments made on an annual based on completion of work packages.

The Countermeasures & Energetics order book at 30 April 2024 was £883m (H1 2023: £597m, 2023: £751m) of which approximately £188m is currently expected to be delivered in the second half of 2024, representing 99% (H1 2023: 99%) coverage of expected H2 revenue. Coverage for 2025 and 2026 respectively is approximately 90% and 65% of expected revenue.

Retirement benefit obligations

On 28 November 2023 the trustees of the Group's legacy UK defined benefit pension scheme, the Chemring Group Staff Pension Scheme (the "Scheme"), entered into a buy-in contract with an insurer, Pension Insurance Corporation. The Group made an initial payment to the Scheme of £1.6m as a contribution to the buy-in premium. Further payments of £0.4m have been made subsequent to this during the period. Overall we expect to pay a further c£2.5m over the next 18 months to provide funding for the rectification of certain members' benefits and to meet the costs associated with the initial buy-in and eventual buy-out of the Scheme.

An expense of £5.0m relating to the defined benefit pension buy-in and buy-out transaction was recognised in the period and classified as an exceptional item. As at 30 April 2024, a remaining surplus of £0.8m is included in the Group balance sheet in accordance with IAS 19, which represents cash held by the Scheme. On completion of the full buy-out of the Scheme, the defined benefit assets and matching defined benefit liabilities will be derecognised from the Group balance sheet.

Dividends

At the Annual General Meeting on 23 February 2024 the shareholders approved a final dividend in respect of the year ended 31 October 2023 of 4.6p per ordinary share. This was paid on 12 April 2024 to shareholders on the register on 22 March 2024.

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 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 2024 financial year of 2.6p (H1 2023: 2.3p) per ordinary share which will be paid on 6 September 2024 to shareholders on the register on 16 August 2024.

Outlook - full year and longer term

The Board's full year expectations are unchanged, supported by order coverage at 30 April 2024 of 93% of expected H2 revenue, with a heavier H2 weighting of operating profit as previously communicated in February 2024.
The market backdrop for defence is increasingly robust. The Group's longer-term growth prospects are strong, underpinned by robust activity levels, our leading technological offerings, our people, high barriers to entry, and the investments we continue to make in our strong, high-quality business. With customers needing to re-equip and modernise their defence capabilities providing increased visibility, and with a robust strategy, the Group has the ambition to increase the Group's annual revenue to c.£1bn by 2030. This makes certain assumptions regarding market sizes, inclusion of some bolt-on M&A and is at current FX rates. 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 longer-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
Group Chief Executive
4 June 2024

James Mortensen
Chief Financial Officer
4 June 2024

CONDENSED CONSOLIDATED INCOME STATEMENT

for the half year to 30 April 2024

	Note	**Unaudited Half year to 30 April 2024**	Unaudited Half year to 30 April 2023*	Audited Year to 31 Oct 2023
		£m	£m	£m
Continuing operations				
Revenue	2	**223.4**	206.3	472.6
Operating profit	2	**17.5**	23.1	45.4
Finance expense		**(2.3)**	(1.0)	(1.3)
Profit before tax		**15.2**	22.1	44.1
Tax charge on profit	5	**(3.0)**	(3.3)	(6.4)
Profit after tax for the period		**12.2**	18.8	37.7
Discontinued operations				
Profit/(loss) after tax from discontinued operations	13	**4.2**	(0.1)	(32.3)
Profit after tax for the period		**16.4**	18.7	5.4
Earnings per ordinary share				
Continuing operations				
Basic	6	**4.4p**	6.7p	13.4p
Diluted	6	**4.3p**	6.5p	13.1p
Continuing operations and discontinued operations				
Basic	6	**6.0p**	6.6p	1.9p
Diluted	6	**5.8p**	6.5p	1.9p

* Unaudited half year to 30 April 2023 comparative information has been re-presented due to a change in classification for discontinued operations. See note 13 for further details.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the half year to 30 April 2024

	Unaudited Half year to 30 April 2024 £m	Unaudited Half year to 30 April 2023 £m	Audited Year to 31 Oct 2023 £m
Profit after tax attributable to equity holders of the parent	**16.4**	18.7	5.4
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of the defined benefit pension schemes	**(2.1)**	(1.1)	(4.7)

Movement on deferred tax relating to pension schemes	**0.5**	0.3	1.6
	(1.6)	(0.8)	(3.1)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	**(6.6)**	(23.1)	(15.2)
Tax on exchange differences on translation of foreign operations	**-**	(1.2)	(1.1)
	(6.6)	(24.3)	(16.3)
Total comprehensive income/(loss) attributable to equity holders of the parent	**8.2**	(6.4)	14.0

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half year to 30 April 2024

Unaudited half year to 30 April 2024

	Share capital £m	Share premium account £m	Special capital reserve £m	Translation reserve £m	Retained earnings £m	Total £m
At 1 November 2023	2.8	308.7	12.9	(8.8)	62.9	378.5
Profit after tax	-	-	-	-	16.4	16.4
Other comprehensive loss	-	-	-	(6.6)	(2.1)	(8.7)
Tax relating to components of other comprehensive loss	-	-	-	-	0.5	0.5
Total comprehensive (loss)/income	-	-	-	(6.6)	14.8	8.2
Ordinary shares issued	-	0.3	-	-	-	0.3
Share-based payments (net of settlement)	-	-	-	-	2.9	2.9
Dividends paid	-	-	-	-	(12.5)	(12.5)
Purchase of own shares	(0.1)	-	0.1	-	(26.5)	(26.5)
At 30 April 2024	**2.7**	**309.0**	**13.0**	**(15.4)**	**41.6**	**350.9**

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)/income	-	-	-	(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 own shares	-	-	-	-	(5.4)	(5.4)
At 30 April 2023	2.8	307.8	12.9	(16.8)	92.9	399.6

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half year to 30 April 2024

Audited year to 31 October 2023

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

CONDENSED CONSOLIDATED BALANCE SHEET as at 30 April 2024

	Note	Unaudited As at 30 April 2024 £m	Unaudited As at 30 April 2023 £m	Audited As at 31 Oct 2023 £m
Non-current assets				
Goodwill		**99.4**	119.1	100.5
Development costs		**17.5**	32.7	17.6
Other intangible assets		**8.5**	11.2	9.6
Property, plant and equipment		**261.0**	222.3	242.2
Retirement benefit surplus		**0.8**	10.3	5.9
Deferred tax		**6.4**	35.8	36.9
		393.6	431.4	412.7
Current assets				
Inventories		**124.2**	116.2	101.7
Trade and other receivables		**86.4**	72.9	74.8
Cash and cash equivalents	11	**4.6**	6.9	6.4
Derivative financial instruments	8	**0.6**	0.8	0.8
		215.8	196.8	183.7
Assets classified as held for sale	13	**6.0**	-	-
Total assets		**615.4**	628.2	596.4
Current liabilities				
Borrowings	11	**(14.3)**	(1.0)	-
Lease liabilities	11	**(1.0)**	(1.5)	(1.1)
Trade and other payables		**(147.1)**	(120.1)	(124.0)
Provisions		**(5.4)**	(1.1)	(5.6)
Current tax		**(5.3)**	(5.0)	(8.2)
Derivative financial instruments	8	**(1.1)**	(3.2)	(3.2)
		(174.2)	(131.9)	(142.1)
Non-current liabilities				
Borrowings	11	**(59.1)**	(25.6)	(14.1)
Lease liabilities	11	**(5.4)**	(3.7)	(5.5)
Provisions		**(11.3)**	(16.1)	(12.0)
Deferred tax		**(14.3)**	(51.1)	(43.8)
Derivative financial instruments	8	**(0.1)**	(0.1)	(0.3)
Preference shares	11	**(0.1)**	(0.1)	(0.1)
		(90.3)	(96.7)	(75.8)
Total liabilities		**(264.5)**	(228.6)	(217.9)
Net assets		**350.9**	399.6	378.5
Equity				
Share capital		**2.7**	2.8	2.8
Share premium account		**309.0**	307.8	308.7
Special capital reserve		**13.0**	12.9	12.9
Translation reserve		**(15.4)**	(16.8)	(8.8)
Retained earnings		**41.6**	92.9	62.9
Total equity		**350.9**	399.6	378.5

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the half year to 30 April 2024

	Note	Unaudited Half year to 30 April 2024 £m	Unaudited Half year to 30 April 2023* £m	Audited Year to 31 Oct 2023 £m
Cash flows from operating activities				
Cash generated from underlying operations	10	**29.4**	22.4	80.0
Cash impact of non-underlying items		**(1.1)**	(1.0)	(2.1)
Cash (utilised in)/generated from discontinued underlying operations	10	**(0.6)**	0.5	(0.8)
Cash impact of discontinued non-underlying items		**(1.4)**	-	(1.9)
Cash flows from operating activities		**26.3**	21.9	75.2
Employer contributions to defined benefit pension scheme		**(2.0)**	-	-
Tax paid		**(5.2)**	(4.9)	(9.3)
Net cash inflow from operating activities		**19.1**	17.0	65.9
Cash flows from investing activities				
Purchases of intangible assets		**(0.9)**	(0.6)	(1.5)
Purchases of property, plant and equipment		**(34.2)**	(11.6)	(32.7)
Acquisition of subsidiary net of cash acquired		**-**	(7.2)	(7.2)
Short-term funding to defined benefit pension scheme		**-**	2.0	2.0
Net cash outflow from investing activities		**(35.1)**	(17.4)	(39.4)
Cash flows from financing activities				
Dividends paid	7	**(12.5)**	(10.8)	(17.3)
Purchase of own shares		**(29.7)**	(5.4)	(14.0)
Net proceeds for transactions in own shares		**0.3**	0.1	0.6
Finance expense paid		**(1.7)**	(1.1)	(0.7)
Capitalised facility fees paid		**(0.3)**	-	(0.3)
Drawdown of borrowings		**75.0**	26.5	60.1
Repayments of borrowings		**(30.1)**	(22.1)	(66.8)
Payment of lease liabilities		**(0.7)**	(0.5)	(1.8)
Net cash inflow/(outflow) from financing activities		**0.3**	(13.3)	(40.2)

Net cash inflow/(outflow) from financing activities		[illegible]	[illegible]	[illegible]
Decrease in cash and cash equivalents		**(15.7)**	(13.7)	(13.7)
Cash and cash equivalents at beginning of period/year		**6.4**	19.8	19.8
Effect of foreign exchange rate changes		**(0.4)**	(0.2)	0.3
Cash and cash equivalents at end of period/year (including bank overdraft)	11	**(9.7)**	5.9	6.4

* Unaudited half year to 30 April 2023 comparative information has been re-presented due to a change in classification for discontinued operations. See note 13 for further details.

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 4 June 2024.

Full accounts for the year ended 31 October 2023, 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 2023 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 2025, 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 2023 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 2023.

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.

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 2024 but have not materially impacted the reported results or the financial position:

- IFRS 17 *Insurance Contracts*;
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

2. SEGMENTAL ANALYSIS - CONTINUING OPERATIONS

Period to 30 April 2024 (unaudited)

	Sensors & Information £m	**Countermeasures & Energetics £m**	**Unallocated* £m**	**Group £m**
Revenue	**105.7**	**117.7**	**-**	**223.4**
Segment result before depreciation, amortisation and non-underlying items	**24.5**	**19.4**	**(8.4)**	**35.5**
Depreciation	**(2.2)**	**(7.6)**	**-**	**(9.8)**
Amortisation	**(0.7)**	**-**	**-**	**(0.7)**
Segmental underlying operating profit	**21.6**	**11.8**	**(8.4)**	**25.0**
Amortisation of acquired intangibles	**(0.4)**	**(0.6)**	**-**	**(1.0)**
Non-underlying items	**(1.7)**	**-**	**(4.8)**	**(6.5)**
Segmental operating profit	**19.5**	**11.2**	**(13.2)**	**17.5**

Period to 30 April 2023 (unaudited)

	Sensors & Information £m	Countermeasures & Energetics £m	Unallocated* £m	Group £m
Revenue	92.1	114.2	-	206.3
Segment result before depreciation, amortisation and non-underlying items	20.6	22.3	(7.6)	35.3
Depreciation	(1.9)	(7.1)	-	(9.0)
Amortisation	-	-	-	-
Segmental underlying operating profit	18.7	15.2	(7.6)	26.3
Amortisation of acquired intangibles	(0.7)	(1.1)	-	(1.8)
Non-underlying items	(1.8)	-	0.4	(1.4)
Segmental operating profit	16.2	14.1	(7.2)	23.1

Year ended 31 October 2023 (audited)

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

* 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.

Reconciliation from underlying to statutory performance:

	Unaudited Half year to 30 April 2024			Unaudited Half year to 30 April 2023		
	Underlying performance £m	**Non-underlying items £m**	**Statutory Total £m**	Underlying performance £m	Non-underlying items £m	Statutory Total £m
Continuing operations						
Revenue	**223.4**	**-**	**223.4**	206.3	-	206.3
Operating profit	**25.0**	**(7.5)**	**17.5**	26.3	(3.2)	23.1
Finance expense	**(2.3)**	**-**	**(2.3)**	(1.0)	-	(1.0)
Profit before tax	**22.7**	**(7.5)**	**15.2**	25.3	(3.2)	22.1
Taxation	**(4.3)**	**1.3**	**(3.0)**	(3.8)	0.5	(3.3)
Profit after tax	**18.4**	**(6.2)**	**12.2**	21.5	(2.7)	18.8
Discontinued operations						
(Loss)/profit after tax from discontinued operations	**(0.5)**	**4.7**	**4.2**	0.2	(0.3)	(0.1)
Profit after tax	**17.9**	**(1.5)**	**16.4**	21.7	(3.0)	18.7
Earnings per ordinary share						
Continuing operations						
Basic	**6.7p**		**4.4p**	7.6p		6.7p
Diluted	**6.6p**		**4.3p**	7.4p		6.5p
Continuing operations and discontinued operations						
Basic	**6.5p**		**6.0p**	7.7p		6.6p
Diluted	**6.4p**		**5.8p**	7.5p		6.5p

Breakdown of non-underlying items:

	Unaudited Half year to 30 April 2024 £m	Unaudited Half year to 30 April 2023 £m	Audited year ended 31 October 2023 £m
Gain on the movement in the fair value of derivative financial instruments	**1.1**	0.4	1.4
Acquisition expenses	**(1.7)**	(1.8)	(3.7)
Defined benefit pension buy-in and buy-out transaction	**(5.0)**	-	-
Change in senior management positions	**(0.9)**	-	-
Impairment of Chemical Detection assets	**-**	-	(18.5)
Release of disposal provisions	**-**	-	3.2
Increase in legal and disposal provisions	**-**	-	(3.2)
Impact of non-underlying items on EBITDA	**(6.5)**	(1.4)	(20.8)
Intangible amortisation arising from business combinations	**(1.0)**	(1.8)	(3.0)
Impact of non-underlying items on operating profit and profit before tax	**(7.5)**	(3.2)	(23.8)
Tax impact of non-underlying items	**1.3**	0.5	3.8
Impact of non-underlying items on continuing profit after tax	**(6.2)**	(2.7)	(20.0)
Non-underlying discontinued operations after tax	**4.7**	(0.3)	(31.4)
Impact of non-underlying items on profit after tax	**(1.5)**	(3.0)	(51.4)
Underlying profit after tax	**17.9**	21.7	56.8
Statutory profit after tax	**16.4**	18.7	5.4

Derivative financial instruments

Included in non-underlying items is a £1.1m gain (H1 2023: £0.4m gain, 2023: £1.4m 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 £1.7m (H1 2023: £1.8m, 2023: £3.7m) of acquisition expenses. This includes £1.6m (H1 2023: £1.7m, 2023: £3.4m) relating to deferred consideration contingent on continued employment of the former owners of Cubica and 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 2023: £0.1m, 2023: £0.3m) 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.

Defined benefit pension buy-in and buy-out transaction

Included in non-underlying items is an expense of £5.0m (H1 2023: £nil, 2023: £nil). This comprises the settlement loss following the buy-in transaction agreed on 28 November 2023, as well as ongoing costs incurred in relation to the buy-in process which will eventually conclude with a buy-out of the scheme. The buy-in and buy-out transaction is considered a non-recurring event by nature and the expense relating to it is material in size, therefore these costs have been excluded from the underlying measures.

Change in senior management positions

Included in non-underlying items are costs of £0.9m (H1 2023: £nil, 2023: £nil) relating to the change of senior management positions within the Group, including the Group Chief Financial Officer and the President of the Group's US operations. The non-underlying costs include costs incurred during handover periods. Costs incurred of this nature are considered exceptional given their significance comparative to general recruitment and remuneration activities across the Group, therefore 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 £1.0m (H1 2023: £1.8m, 2023: £3.0m). 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 2024, the tax impact of non-underlying items comprises a £1.3m tax credit (H1 2023: £0.5m credit, 2023: £3.8m credit) on the above non-underlying items.

Discontinued operations

Included in discontinued non-underlying items is a £4.7m profit net of tax (H1 2023: £0.3m loss, 2023: £31.4m loss) in respect of the Explosive Hazard Detection ("EHD") business, which includes the reversal of an impairment of inventory following an agreement being reached to sell certain assets. See note 13 for further details.

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 - CONTINUING OPERATIONS

	Unaudited period to 30 April 2024 £m	Unaudited period to 30 April 2023 £m	Audited year ended 31 October 2023 £m
Underlying tax charge	**4.3**	3.8	10.2
Tax impact of non-underlying items	**(1.3)**	(0.5)	(3.8)
Total statutory tax charge	**3.0**	3.3	6.4

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 18.9% (H1 2023: 15.0%, 2023: 15.0%). The effective tax rate is higher than the 2023 effective tax rate due to the full year effect of the increase in the UK corporation tax rate and an increased weighting of UK profits.

6. EARNINGS PER SHARE

Earnings per share is based on the average number of shares in issue, excluding own shares held, of 273,990,325 (H1 2023: 281,708,913, 2023: 281,655,927). Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 280,604,559 (H1 2023: 288,618,553, 2023: 288,780,153).

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

			Unaudited Half year to 30 April 2024			Unaudited Half year to 30 April 2023
	£m	**Basic EPS (pence)**	**Diluted EPS (pence)**	£m	Basic EPS (pence)	Diluted EPS (pence)
Underlying profit after tax	**18.4**	**6.7**	**6.6**	21.5	7.6	7.4
Non-underlying items	**(6.2)**			(2.7)		
Profit from continuing operations	**12.2**	**4.4**	**4.3**	18.8	6.7	6.5
Profit/(loss) from discontinued operations	**4.2**			(0.1)		

operations	**4.2**					
Total profit after tax	**16.4**	**6.0**	**5.8**	18.7	6.6	6.5

	Audited year to 31 October 2023		
	£m	Basic EPS (pence)	Diluted EPS (pence)
Underlying profit after tax	57.7	20.5	20.0
Non-underlying items	(20.0)		
Profit from continuing operations	37.7	13.4	13.1
Loss from discontinued operations	(32.3)	(11.5)	(11.2)
Total profit after tax	5.4	1.9	1.9

7. DIVIDENDS

At the Annual General Meeting on 23 February 2024 the shareholders approved a final dividend in respect of the year ended 31 October 2023 of 4.6p per ordinary share (2023: 3.8p). This was paid on 12 April 2024 to shareholders on the register on 22 March 2024 and totalled £12.5m (H1 2023: £10.8m).

The Board also declared an interim dividend in respect of 2024 of 2.6p per ordinary share (2023: 2.3p) which will be paid on 6 September 2024 to shareholders on the register on 16 August 2024. The estimated cash value of this dividend is £7.3m (2023: £6.5m).

8. FINANCIAL INSTRUMENTS

As at 30 April 2024, 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 2024, the total fair value of forward foreign exchange contracts recognised in the condensed consolidated balance sheet were an asset of £0.6m (H1 2023: £0.8m, 2023: £0.8m), a current liability of £1.1m (H1 2023: £3.2m, 2023: £3.2m) and a non-current liability of £0.1m (H1 2023: £0.1m, 2023: £0.3m).

9. RELATED PARTY TRANSACTIONS

Past transactions with related parties are shown on page 159 of the 2023 Annual Report. There were no significant related party transactions during the current period requiring disclosure.

10. CASH GENERATED FROM OPERATING ACTIVITIES

	Unaudited Half year to 30 April 2024 £m	Unaudited Half year to 30 April 2023 £m	Audited Year to 31 Oct 2023 £m
Operating profit from continuing operations	**17.5**	23.0	45.4
Amortisation of development costs	**0.7**	-	0.7
Amortisation of intangible assets arising from business combinations	**1.0**	1.8	3.0
Impairment of development costs	**-**	-	15.6
Depreciation of property, plant and equipment	**9.8**	9.1	18.6
Defined benefit pension buy-in and buy-out transaction expenses	**5.0**	-	-
Other non-underlying items	**1.5**	1.4	5.2
Share-based payment expense	**1.9**	1.5	4.4
Operating cash flows before movements in working capital	**37.4**	36.8	92.9
Increase in inventories	**(24.6)**	(23.9)	(18.2)
Increase in trade and other receivables	**(12.5)**	(14.6)	(18.7)
Increase in trade and other payables	**29.1**	24.1	23.7
Increase in provisions	**-**	-	0.3
Operating cash flow from continuing underlying operations	**29.4**	22.4	80.0
Discontinued operations			
Cash (utilised in)/generated from discontinued underlying operations	(0.6)	0.5	(0.8)
Cash impact of discontinued non-underlying items	(1.4)	-	(1.9)
Net cash (outflow)/inflow from discontinued operations	**(2.0)**	**0.5**	**(2.7)**

11. ANALYSIS OF NET DEBT

	As at 1 Nov 2023 £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	**As at 30 April 2024 £m**
Cash and cash equivalents*	6.4	(15.7)	-	(0.4)	**(9.7)**
Debt due after one year	(14.1)	(44.6)	(0.4)	-	**(59.1)**
Lease liabilities	(6.6)	0.7	(0.5)	-	**(6.4)**
Preference shares	(0.1)	-	-	-	**(0.1)**
	(14.4)	(59.6)	(0.9)	(0.4)	**(75.3)**

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

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

The Group's principal debt facilities comprise a £150m revolving credit facility up to December 2025 of which £130m has been extended to December 2026, as well as a US$20m overdraft. The revolving credit facility was established in July 2021 with a syndicate of six banks and there is one option to extend for one year to December 2027. The Group had £69.3m (H1 2023: £130.2m, 2023: £142.9m) 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 0.88 times (covenant limit of 3 times) and the half year interest cover ratio was 27.73 times (covenant floor of 4 times).

12. EXCHANGE RATES

The following exchange rates applied during the period:

	Average rate H1 2024	**Closing rate H1 2024**	Average rate H1 2023	Closing rate H1 2023	Average rate 2023	Closing rate 2023
US dollar	**1.26**	**1.25**	1.24	1.26	1.24	1.21
AU dollar	**1.92**	**1.93**	1.85	1.90	1.91	1.92
NOR krone	**13.59**	**13.87**	12.71	13.44	13.10	13.56

The translation of foreign currency items in the financial statements are dependent on the prevailing foreign exchange rates. For the period ended 30 April 2024, a 10 cent increase in the US dollar exchange rate would have decreased reported underlying operating profit for the first half of 2024 by approximately £0.3m.

13. DISCONTINUED OPERATIONS AND HELD FOR SALE

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

	Unaudited Half year to 30 April 2024 £m	Unaudited Half year to 30 April 2023 £m	Audited Year to 31 Oct 2023 £m
Revenue	**1.0**	5.8	9.3
Underlying operating (loss)/profit from discontinued operations	**(0.6)**	0.3	(1.2)
Tax credit/(charge) on underlying operating (loss)/profit from discontinued operations	**0.1**	(0.1)	0.3
(Loss)/profit after tax from underlying discontinued operations	**(0.5)**	0.2	(0.9)
(Loss)/profit after tax is analysed as:			
Before non-underlying items	**(0.5)**	0.2	(0.9)
Non-underlying items	**5.4**	(0.4)	(33.6)
Tax on non-underlying items	**(0.7)**	0.1	2.2
	4.7	(0.3)	(31.4)
Profit/(loss) for the year from discontinued operations	**4.2**	(0.1)	(32.3)

In H1 2024 an agreement was reached to sell certain assets related to the EHD business. The sale transaction is expected to complete subject to regulatory approval.

A held for sale asset of £6.0m in relation to the EHD business has been recognised as at 30 April 2024, representing the fair value of the assets less costs to sell. The non-underlying profit of £5.4m in the period comprises the reversal of an impairment previously recognised against inventory of £6.0m (see details relating to the impairment charge in 2023 below), net of site rationalisation costs of £0.5m and professional fees related to the sale of assets of £0.1m.

In H1 2023 the non-underlying items include amortisation of acquired intangibles of £0.4m which relates to the EHD business. Amortisation of acquired intangibles arising from business combinations is associated with acquisition costs under IFRS 3 *Business Combinations*. As such, these costs are not reflective of the underlying activities of the discontinued operations and therefore have been treated as non-underlying items.

In 2023 the non-underlying items include a non-cash impairment of £31.2m (of which £20.5m relates to the goodwill associated with the acquisition of the EHD business in 2009 and £10.7m relates to other assets), site rationalisation costs of £1.7m and the amortisation of acquired intangibles of £0.7m. The impairment expenses and site rationalisation costs are not reflective of the underlying costs of the Group and therefore, in order to provide an explanation of results that is not distorted by non-recurring asset impairments or expenses, these costs have been excluded from the underlying measures.

The cash flows from discontinued operations are presented in note 10.

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

	Underlying			Non-underlying		
	Reported H1 2023 £m	Adjustment £m	Re-presented H1 2023 £m	Reported H1 2023 £m	Adjustment £m	Re-presented H1 2023 £m
CONSOLIDATED INCOME STATEMENT						
Continuing operations						
Revenue	212.1	(5.8)	206.3	-	-	-
Operating profit/(loss)	26.6	(0.3)	26.3	(3.6)	0.4	(3.2)
Finance expense	(1.0)	-	(1.0)	-	-	-

Profit/(loss) before tax	25.6	(0.3)	25.3	(3.6)	0.4	(3.2)
Taxation	(3.9)	0.1	(3.8)	0.6	(0.1)	0.5
Profit/(loss) after tax	21.7	(0.2)	21.5	(3.0)	0.3	(2.7)
Discontinued operations						
Profit after tax	-	0.2	0.2	-	0.3	0.3
Total profit/(loss) after tax	**21.7**	**-**	**21.7**	**(3.0)**	**-**	**(3.0)**
CONSOLIDATED CASH FLOW STATEMENT						
Continuing operations						
Cash flows from operating activities	22.9	(0.5)	22.4	(1.0)	-	(1.0)
Discontinued operations						
Cash flows from operating activities	-	0.5	0.5	-	-	-
Total cash flows from operating activities	**22.9**	**-**	**22.9**	**(1.0)**	**-**	**(1.0)**

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

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 2023 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 71 to 76 of the 2023 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; and
- 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 2024 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 2024 is not prepared, in all material statements in the half-yearly financial report for the six months ended 30 April 2024 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

Gateway House
Tollgate
Chandlers Ford
Southampton
SO53 3TG

4 June 2024

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