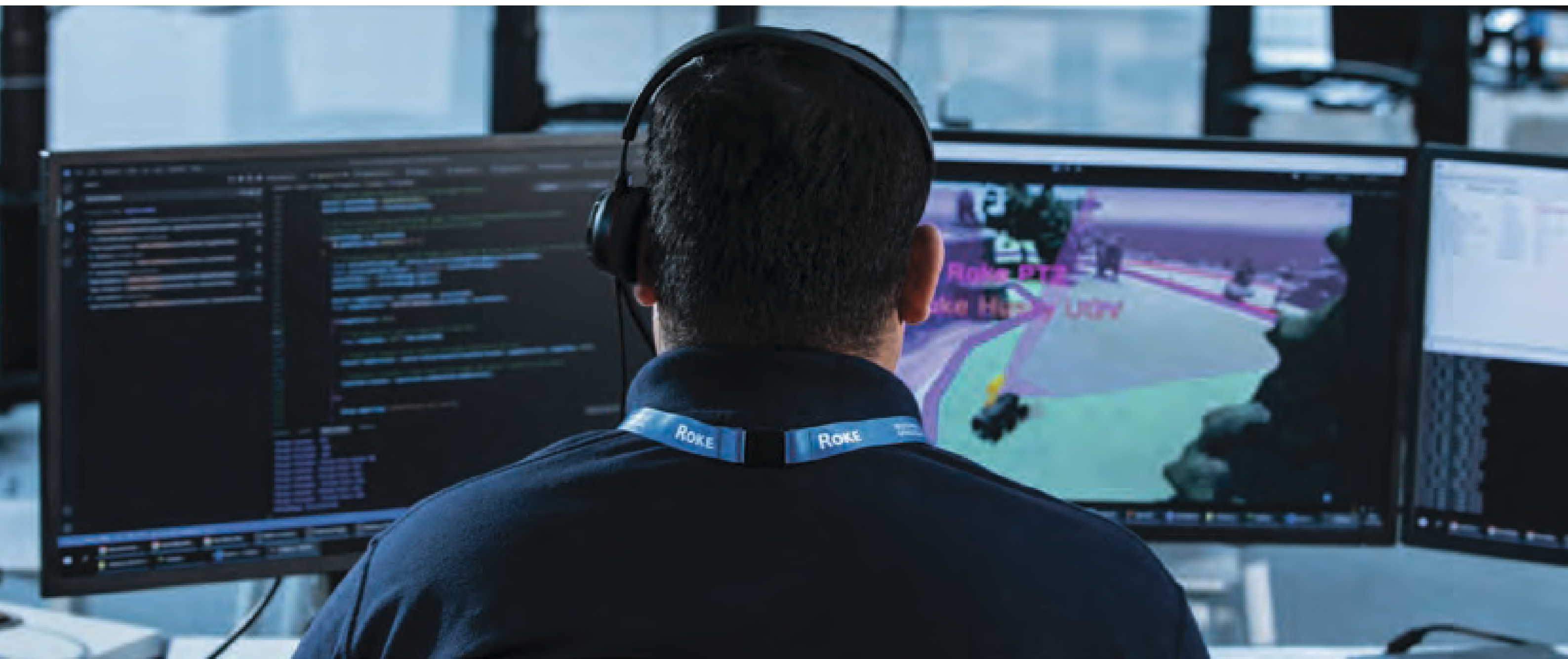
CONTINUING TO INNOVATE, PROTECT AND GROW

Chemring
Innovating to protect

CHEMRING GROUP PLC ANNUAL REPORT AND ACCOUNTS 2022



CONTENTS

OUR PURPOSE

Chemring helps make the world a safer place. Across physical and digital environments, our exceptional teams deliver innovative technologies and products that detect and defeat ever-changing threats.

Read more on pages 6 to 7

OUR STRATEGY

To be a leading provider of critical and innovative technologies that detect and protect people, platforms, missions and information against constantly changing threats.

TARGET GROWING NICHES | **WINNING MARKET SHARE** | **GROW OUR US BUSINESS**

Read more on pages 24 to 25

OUR ESG PILLARS

The long-term success of the Chemring business can only be enhanced by a positive interaction with all of our stakeholders, and therefore a positive and engaged approach to corporate responsibility and sustainability is important to us. Our approach is focused around the following key areas:

HEALTH AND SAFETY | **ENVIRONMENT** | **PEOPLE** | **ETHICS AND BUSINESS CONDUCT**

Read more on pages 37 to 58

OUR VALUES

SAFETY
We place safety at the heart of everything we do.

EXCELLENCE
We are focused on ensuring we consistently meet high standards in all that we do.

INNOVATION
We create world-class solutions and develop world-class thinking.

Read more on page 19

DISCOVER MORE ABOUT CHEMRING AT CHEMRING.COM

2022 PERFORMANCE

FINANCIAL HIGHLIGHTS

REVENUE

£442.8m

(+13%) (+7% at constant currency)

Increase in revenue at constant currency driven by strong performance at Roke and steady growth in Countermeasures & Energetics.

CASH CONVERSION

109%

(2021: 105%)

Continued strong cash conversion, with an average of 108% on a rolling 36-month basis (2021: 107%), driven by a continued focus on working capital disciplines.

UNDERLYING OPERATING PROFIT*

£64.0m

(+11%) (+8% at constant currency)

Reflects the growth of the higher margin Roke business as well as the increasing margin in Countermeasures & Energetics through improving operational performance.

STATUTORY OPERATING PROFIT

£53.3m

(+6%) (+3% at constant currency)

The difference to underlying operating profit reflects the amortisation of acquired intangible assets, acquisition expenses and loss on the movement in fair value of derivatives which are the only items treated as non-underlying in 2022.

UNDERLYING OPERATING PROFIT*

GROUP

£64.0m

SENSORS & INFORMATION

£30.0m

Read more on pages 30 to 33

COUNTERMEASURES & ENERGETICS

£48.9m

Read more on pages 34 to 36

HIGHLIGHTS

- 2022 performance exceeded the Board's initial expectations with strong performance in both sectors despite a challenging macro-economic environment
- Roke revenue exceeded £100m for the first time and with order intake of £168m, up 59%, is well positioned to continue its growth trajectory in what continues to be a buoyant market
- Post year-end acquisition of Geollect completed on 7 December 2022
- Order intake for Countermeasures & Energetics was £356m, up 40%, driven by multi-year orders received across the sector
- Investment in the Group's manufacturing infrastructure continues to be a key enabler to deliver improved safety and operational excellence, with the Countermeasures & Energetics margin improving from 16.2% to 17.4%
- The continued reduction in net debt by 73% to £7.2m was driven by strong operating cash generation and cash conversion of 109%. Net debt to underlying EBITDA of 0.09 times
- Proposed final dividend increased by 19% to 3.8p, giving a total dividend of 5.7p (3.5 times cover)
- Board's expectations for 2023 are unchanged. Approximately 86% (2021: 84%) of expected 2023 revenue is covered by the order book

2023 OUTLOOK

The strong market for Roke's Electronic Warfare products and active Cyber Defence/Mission support services, the projected growth in our niche precision engineered devices and speciality chemicals businesses, together with strong order book cover, all support a strong medium-term outlook.

* References to underlying operating profit and earnings per share throughout this strategic report are to underlying measures from continuing operations; see note 3 for a reconciliation to the statutory profit after tax from continuing operations of £47.4m (2021: £41.5m). For references to constant currency equivalents of reported numbers please refer to page 60 for further explanation.

WHAT WE DO

INNOVATION AND TECHNOLOGY IS AT OUR CORE

At Chemring we create market-leading technology solutions and develop world-class thinking to solve the most challenging problems.

Using our extensive science and engineering expertise, we turn ideas into reality, designing and developing critical solutions that protect and safeguard in an uncertain world.

We achieve this by innovating at every stage of the value chain, from research and development ("R&D"), through to design, manufacture and in-service support for our sensors and detection systems, countermeasures, precision engineering and energetic products.

Our customer base spans national defence organisations, security and law enforcement agencies, as well as commercial markets such as space, medical and transport. We support our customers in more than 50 countries across the globe.

WHERE WE OPERATE

Our home markets of the UK, US, Australia and Norway have a substantial and enduring commitment to defence and national security. We also export our technology solutions to additional markets. The percentages represent the proportion of sales for that destination in the year ended 31 October 2022.

UK

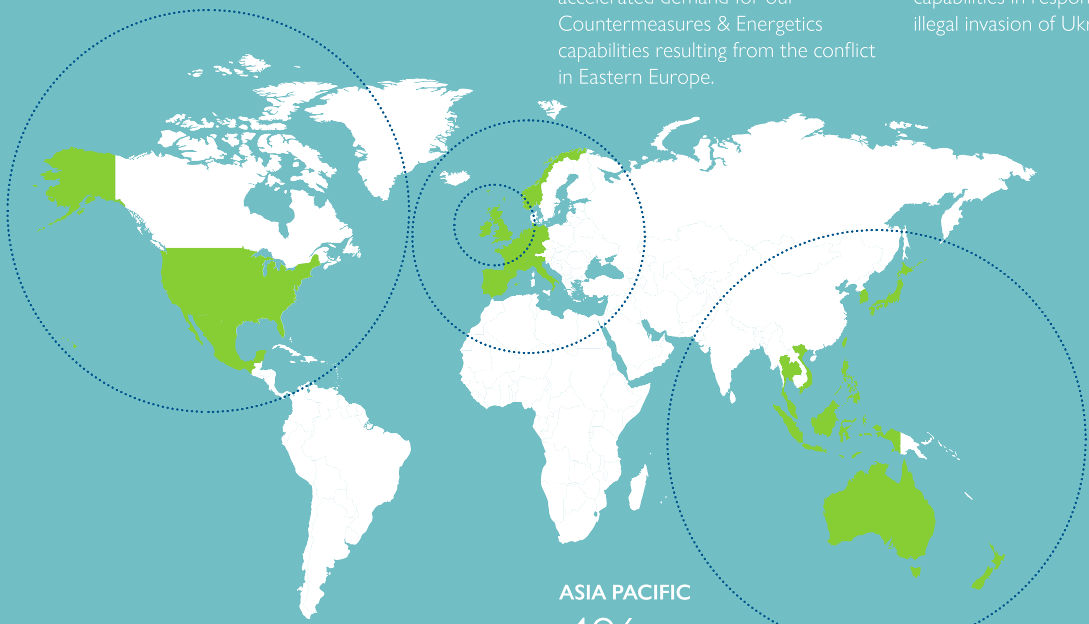
34%

In the UK we are well positioned to benefit from the increased demand for intelligence and cyber-security solutions signalled by the Integrated Review. We are also seeing accelerated demand for our Countermeasures & Energetics capabilities resulting from the conflict in Eastern Europe.

EUROPE

12%

In Europe, our Norwegian business is experiencing ever greater demand for its niche speciality chemicals as customers seek to strengthen their defence capabilities in response to Russia's illegal invasion of Ukraine.



US

50%

The US remains the single largest defence market in the world and continues to be our principal home market. Our position in the market is underpinned by a Special Security Agreement ("SSA") that enables us to be a supplier on important and sensitive programmes to US customers. The continuous support for defence spending in the US provides us with relatively good visibility for future earnings as we respond to the customer's modernisation priorities.

ASIA PACIFIC

4%

Regional instabilities, capability upgrades and technology advancements are driving increased spend in the Asia Pacific region. Our Australian business positions us to contribute towards meeting the defence requirements of Australia and other countries in the region.

CHEMRING IS ORGANISED INTO TWO STRATEGIC SECTORS


Crown copyright

SENSORS & INFORMATION

Innovation is core to solving our clients' difficult problems.

With over 700 scientists, engineers and consultants, our Sensors & Information sector continues to invest in technologies that safeguard and protect in an uncertain world.

Operating across defence, national security, law enforcement and industrial domains, we enable our clients to deliver competitive advantage, defend their people, assets and information, and defeat their adversaries.

Our sensor technologies detect threats with a very high degree of confidence, be they explosive, biological, chemical, radio or cyber.

Our Roke business draws on a 60-year heritage of innovation in sensors, communications, cyber and artificial intelligence to innovate and apply these technologies in new ways.

We operate across the whole lifecycle providing advice, R&D, engineering, design and in-service support for our products and services.

REVENUE

£162.3m

(2021: £146.6m)

UNDERLYING OPERATING PROFIT

£30.0m

(2021: £31.6m)

COUNTERMEASURES & ENERGETICS

Chemring is the world leader in the design, development and manufacture of advanced expendable countermeasures for protecting air and sea platforms against the growing threat of guided missiles.

We combine a deep understanding of platform signatures, missile seekers and chemical formulations to develop new countermeasures against evolving threats.

Our niche, world-class energetics portfolio provides high-reliability, single-use devices that perform critical functions for the space, aerospace, defence and industrial markets.

Every day, our products, services and experts assist customers, including NASA and SpaceX, to achieve mission success. This ranges from cutting-edge technology to enable our customers to launch rockets and satellites into orbit, to the provision of aircraft safety systems including oxygen mask deployment on commercial aircraft and ejector seats for aircrew egress.

REVENUE

£280.5m

(2021: £246.7m)

UNDERLYING OPERATING PROFIT

£48.9m

(2021: £40.0m)

SUSTAINABILITY OVERVIEW

COMMITTED TO A SUSTAINABLE FUTURE

At Chemring we acknowledge and embrace our collective responsibility to contribute to a sustainable future. We have a strong and recognised obligation to ensure the responsible operation of our business and are fully committed to long-term sustainable value creation through safe, sustainable and ethical business conduct at all times. Our goal is to ensure that we protect our planet and our people, support our customers and their critical needs, and that we have a positive impact on the communities in which we operate.

Improving our sustainability performance plays a key role in the way in which we run our business today, and plan for the future as we manage our environmental, social and governance ("ESG")- related risk. Our sustainability goals are now directly linked to targets for remuneration and reward across our leadership teams.

We also recognise that our ESG credentials are an increasingly important factor in our ability to attract and retain first-class people. Engaged, motivated, empowered and appropriately skilled employees are integral to our success as we build a sustainable company of which all our stakeholders can be proud.

PURPOSE

Chemring helps make the world a safer place. Across physical and digital environments, our exceptional teams deliver innovative technologies and products that detect and defeat ever-changing threats.

STRATEGY

To be a leading provider of critical and innovative technologies that detect and protect people, platforms, missions and information against constantly changing threats.

APPROACH

The long-term success of Chemring can only be enhanced by a positive interaction with all of our stakeholders. An engaged and constructive approach is therefore important to us. Following the stakeholder materiality assessment that was undertaken in 2021, our approach is now focused on the following key topics and associated areas of focus.

MAKING THE WORLD A SAFER PLACE

HEALTH AND SAFETY

- Control of major accident hazards
- Injury prevention
- HSE risk management
- Occupational and process safety

Read more on pages 40 to 41

ENVIRONMENT

- Emission reduction
- Waste generation and hazardous materials management
- Energy usage
- Water consumption

Read more on pages 42 to 49

PEOPLE

- Culture
- Diversity and inclusion
- Employee wellbeing and engagement
- Employee learning and development

Read more on pages 50 to 56

ETHICS AND BUSINESS CONDUCT

- Operational Framework and Code of Conduct
- Compliance oversight and risk management
- Whistleblowing
- Anti-bribery and corruption

Read more on pages 57 to 58

Our commitment to protection goes beyond our customers and immediate stakeholders, it includes our planet and broader society and is underpinned by our values and behaviours.

VALUES

SAFETY

We place safety at the heart of everything we do

EXCELLENCE

We are focused on ensuring we consistently meet high standards in all that we do

INNOVATION

We create world-class solutions and develop world-class thinking

As of 2022, Chemring Group PLC received an MSCI ESG Rating of AAA.*

MSCI ESG RATINGS AAA

CCC	B	BB	BBB	A	AA	AAA

PROGRESS IN 2022

Chemring's purpose is to help make the world a safer place and Russia's invasion of Ukraine has tragically highlighted the critical role that the defence and security industry plays in preserving peace, democracy and freedom in the western world. It has reinforced the argument that for sustainability to thrive, it requires global stability at its foundations. We are proud of the role that Chemring plays in providing that stability and are equally focused on ensuring that we manage and progress our own sustainability agenda, and in particular our ESG-related risks.

It has been another busy year in which we have built on the good progress made during FY21.

Our ESG strategy over the current and future years will seek to identify those areas where our activities can have most impact. Plans are now in place to continue this journey and to ensure that we meet the growing disclosure requirements of our stakeholders and demonstrate our ability to successfully address ESG-related issues.

ESG HIGHLIGHTS

HEALTH AND SAFETY

Total recordable injury frequency rate 0.78 (2021: 0.67)

High-potential incidents: 13 (2021: 9)

Technical Safety and Occupational, Health, Safety and Wellbeing Committees formed

ENVIRONMENT

Green House Gas ("GHG") and carbon emissions flat (<1% difference year-on-year)

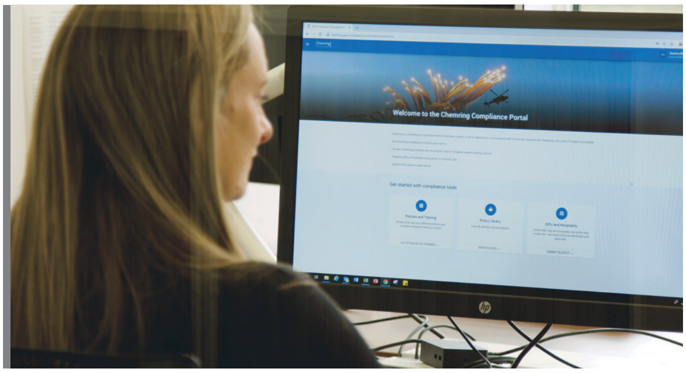
Carbon reduction plans being implemented in every business

Sustainability Committee formed to shape, monitor and ensure future progress

PEOPLE

100% of our senior leaders have participated in diversity, equity and inclusion workshops

All new graduates and apprentices will take part in a UK-wide Early Careers development programme which started in November 2021



ETHICS AND BUSINESS CONDUCT

Updated Code of Conduct and training issued

Continued implementation of Chemring Compliance Portal

Operational assurance process enhanced

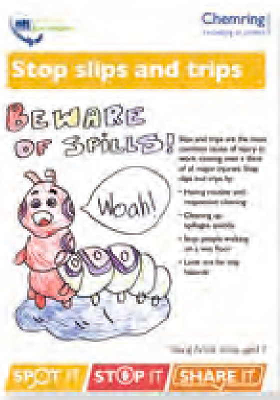
* The use by Chemring Group PLC of any MSCI ESG research LLC or its affiliates ("MSCI") data, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement, recommendation, or promotion of Chemring Group PLC by MSCI. MSCI services and data are the property of MSCI or its information providers, and are provided 'as-is' and without guarantee. MSCI names and logos are trademarks or services marks of MSCI.

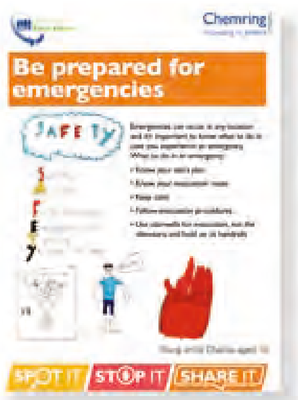
DISCOVER MORE ABOUT SUSTAINABILITY: CHEMRING.COM/SUSTAINABILITY/COMMITTED-TO-A-SUSTAINABLE-FUTURE

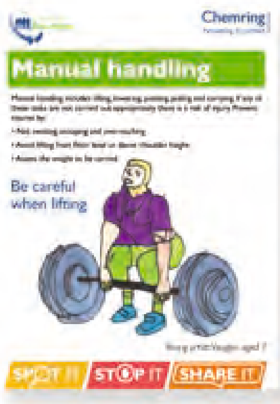
OUR PURPOSE IN ACTION

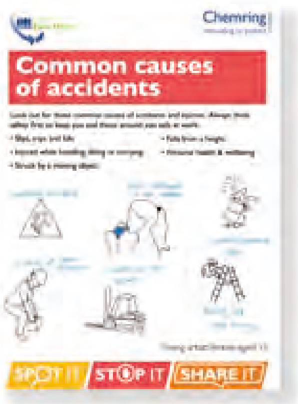
WE'RE CONTINUING TO PROTECT AND GROW BY LIVING OUR VALUES

Innovating to protect lies at the core of our foundations, underpinned by our values of Safety, Excellence and Innovation. Every day, our people play an essential role in protecting armed forces, national security and commercial operations in sovereign states across the globe.









SAFETY

CONTINUING OUR JOURNEY TO ZERO HARM

Our Journey to Zero Harm is about identifying and taking further actions to reduce the likelihood of anyone getting hurt by focusing on people, plant and process. For plant, we regularly review and strengthen our assets' integrity. For process, we are investing in new automated production systems and improving our processes. For people, that is where our safety culture comes in and the part all our colleagues play in making sure we operate in safe conditions using safe behaviours.

SPOT IT, STOP IT, SHARE IT

Last year, we launched a new internal campaign called Spot it, Stop it, Share it, encouraging our colleagues to step up their focus on reporting unsafe conditions, behaviours and near misses. Following up those near miss reports with corrective actions is essential, and that is where leadership and the health and safety teams on site make a real difference. This year, the campaign continued with a safety poster design competition for our colleagues' children to promote good behaviours and procedures.

Building a strong, proactive safety culture is our number one priority at Chemring. We will continue to develop that health and safety culture as we Journey to Zero Harm, ensuring we protect our employees every step of the way.

EXCELLENCE

COGSWELL AWARD FOR AN EXCEPTIONAL SECURITY PROGRAMME

Chemring Sensors & Electronic Systems ("CSES") was awarded a Cogswell Award in June this year. The award is the most prestigious honour the US Defense Counterintelligence & Security Agency ("DCSA") can bestow on a cleared defence contractor. It was established in 1966 in honour of the late Air Force Colonel, James S. Cogswell, the first chief of the United Office of Industrial Security.

Of the nearly 13,000 cleared US defence contractors, like CSES, in the National Industrial Security Program ("NISP"), only the top 0.5% are selected to receive a Cogswell Award.

With this award, CSES was recognised for establishing and maintaining a security programme that exceeds the NISP requirements, demonstrates a commitment to excellence and sets a high standard for other organisations to follow.

Amish Mehta, President of CSES, commented:

"It was an honour to receive a Cogswell Award in recognition of our exceptional security programme in support of our customers. Achieving this distinction requires a total team effort and is a testament to the hard work of our security team and our organisation-wide commitment to excellence in security. Our top priority is the safety and security of our people and our customers' technical advantage and data."

INNOVATION

HELPING TO ADDRESS UK'S TECHNICAL SKILLS GAP AND BOOST SCALABLE GROWTH

Earlier this year, the Roke Academy was launched as part of Roke's strategy for scalable growth. The business welcomed new candidates to their intensive six-month programme, the Ignite Development Pathway ("IDP"). The IDP focuses on life skills and enthusiasm for technology that candidates bring rather than a straight career path.

In the face of "the war for talent", the Academy focuses on developing transferable life skills and a passion for technology rather than benefiting those already qualified for hire. This creates an alternate, fully inclusive pathway into employment for those that might otherwise have faced barriers to entry.

Targeting the national technical skills gap, the Roke Academy provides high quality training in key technology areas and the supporting skills needed to deliver it effectively.

The Academy is designed to be a centre of excellence for learning and development, focusing on non-traditional areas of recruitment to embrace undiscovered talent who may not have previously had the opportunity to enter the technology field. Individuals who have found the traditional recruitment process a challenge are returning to work after a break, transitioning from military and law enforcement service, or looking for a change of career. Candidate selection also seeks to challenge traditional technology demographics in areas of gender, ethnicity and neurodiversity.

Paul MacGregor, Roke Managing Director, commented:

"The Roke Academy provides the opportunity to attract new candidates who may have faced barriers to work for various reasons. We support these diverse individuals who can bring unique strengths to our business in terms of creativity, analysis, innovation and leadership to then progress in their chosen field."

INVESTMENT CASE

INVESTING IN SUSTAINABLE PERFORMANCE AND GROWTH

Chemring delivers profitable growth by operating in markets where we have differentiators, such as intellectual property, niche technology and high barriers to entry.

We continually review our portfolio to ensure that we maintain sustainable niche positions where technical and qualification barriers to entry enable high margins. These, along with strong and enduring customer relationships, provide us with a strong platform for future growth. We will achieve our growth by total commitment to our enduring purpose, which is to relentlessly innovate to protect our customers.

WELL POSITIONED IN NICHE SEGMENTS

Against the background of growing defence budgets, particularly in the US and Europe, Chemring is well positioned in niche segments of the defence market which, over time, have the opportunity to outperform the broader sector.

These include the Group's global market-leading positions on airborne and naval countermeasures, advanced sensors, Electronic Warfare and software engineering. We are also well placed to benefit from growth in the space segment where we are a key supplier of mission critical specialist devices to customers including NASA and SpaceX.

The Group's strong order book provides good medium-term visibility. A significant proportion of our revenue is generated from sole or dual source positions, often from long-term partnering agreements. Market-leading positions, incumbent supplier status and high barriers to entry position Chemring well for the future.

MAJOR INTERNATIONAL PROGRAMMES

Chemring is exposed to a substantial pipeline of major international programmes that have the potential to deliver strong long-term growth. These include being a qualified source for the F-35 Joint Strike Fighter countermeasure programme and having technologies and products to address the next-generation US programmes in explosive hazard detection, chemical detection and biological detection – increasingly relevant in a post-pandemic world.

As Cyber and Electromagnetic Activity ("CEMA") becomes increasingly important in today's threat environment, and as a consequence of Russia's invasion of Ukraine, there are a growing number of opportunities for our Electronic Warfare products in the international market.

We are seeing growing customer enquiries for Roke's suite of world-leading Electronic Warfare products and are supporting ongoing customer demonstrations and field trials in the US to secure orders from this potentially significant market.

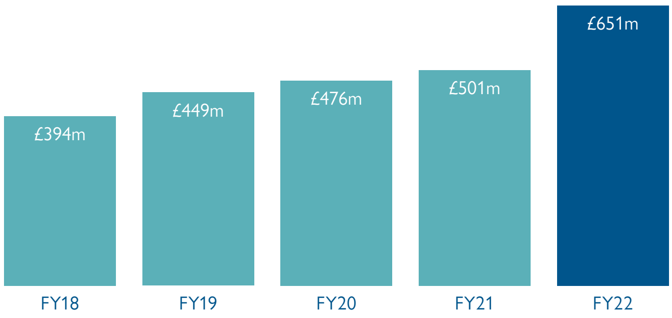
STRONG GROWTH IN ROKE'S NATIONAL SECURITY AND DEFENCE MARKETS

Roke's consulting, technology and R&D service activities are experiencing strong growth, driven principally by information security for the national security and defence markets.

The Group's capabilities are well aligned to both the US and UK Government's emphasis on Cyber, secure networks, secret cloud, artificial intelligence, data science, autonomy and Electronic Warfare ("EW"). This validates our Sensors & Information sector strategy, and should increase the opportunity space for Roke to deploy its market-leading technologies.

Opportunities exist to expand and accelerate Roke's capabilities and offerings, both through acquisitions and opportunities in adjacent markets and territories.

ORDER BOOK GROWTH – LAST FIVE YEARS (£m)



MEDIUM-TERM FINANCIAL OBJECTIVES

Since 2019 the Group has communicated certain medium-term financial objectives, which have been rolled forward at each set of results. These included:

- **Targeting mid-teen return on sales in the medium term.** Margins have progressed from 10.4% in FY18 to 14.5% in FY22
- **Improving cash flow.** Across the last three years, operating cash conversion has been 108% of EBITDA, demonstrating the improvement in business practices is permanent and sustainable
- **Reducing indebtedness.** Net debt has decreased from £81.8m in FY18 to £7.2m in FY22, while spending c.£150m on capex over the period

Chemring is focused on building a financially sustainable and robust Group. These actions provide strong foundations for future growth.

BALANCE SHEET STRENGTH

Chemring has a robust balance sheet and strong ongoing operating cash generation, providing a platform for future investment in the business, both organic and inorganic, and sustainable, growing dividend payments.

PROVEN MANAGEMENT WITH MOMENTUM

Chemring's executive management team has significant sector experience, with a proven track record of business restructuring, strategic investment and the delivery of profitable growth. The team continues to manage delivering both organic and inorganic growth, balancing near-term performance with long-term value creation.

DISCOVER MORE ABOUT INVESTING: CHEMRING.COM/INVESTORS

CHAIRMAN'S STATEMENT

DELIVERING CONTINUED PROGRESS

"It is pleasing to report that the Group has continued to make strong progress during 2022, delivering against the needs of all its stakeholders despite the numerous challenges that have been faced in another extraordinary year."

INTRODUCTION

The past year has seen a number of ongoing challenges, and opportunities arising from the COVID-19 ("CV-19") pandemic and a significant conflict in Europe. These have resulted in changing defence priorities, increasingly competitive global markets and a business environment that is seeing supply chain interruption, increased energy costs and a shortage of labour availability.

Despite these challenges the Group has again delivered a robust performance that exceeded our expectations at the start of the year. Our commitment to long-term sustainable value creation through safe, sound and ethical business conduct at all times has ensured that we have met our customers' critical needs whilst performing to the highest standards. None of this would be possible without the commitment and dedication of our people and on behalf of the Board I wish to acknowledge and thank them for their professionalism and support.

Russia's invasion of Ukraine has highlighted the critical role that the defence industry plays in preserving peace and democracy in the western world, and that for sustainability to thrive, it requires global stability at its foundations. It has also highlighted the need for countries to re-equip and modernise their defence capabilities to meet the threat of peer on peer conflict. With the global defence market predicted to show strong growth over the next decade I believe that Chemring is well placed to continue delivering both organic and inorganic growth, balancing near-term performance with long-term value creation.

STRATEGY

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

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

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

Read more on pages 30 to 33

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

Read more on pages 34 and 36

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

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

HEALTH, SAFETY AND THE ENVIRONMENT

At Chemring our goal is zero harm. This goes beyond the management of safety and recognises that we have a duty to ensure that we take appropriate actions to minimise the impact of our operations on many different levels, from employee wellbeing to climate change.

The Board recognises that the highest levels of safety are required in order to protect employees, product users and the general public. The Board believes that all incidents and injuries are preventable, and that all employees have the right to expect to return home safely at the end of every working day. Safety therefore remains one of the core values within Chemring and is central to our operating philosophy. A key part of our health, safety and environmental ("HSE") strategy is the collation and analysis of data at every level to focus on the underlying causes of incidents and the impact of our operations. This facilitates appropriate decision making at all levels of our organisation.

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

In addition, we have extended our current data platform to better assess the environmental impacts of our operations and performance against the targets that were set in 2021 in support of our wider ESG commitment. Improving our sustainability performance plays a key role in the way we both run our businesses today, and how we plan for the future. Further details on this can be found in the sustainability section of this report.

Whilst consolidating in a calculative culture we are also keen to ensure learning is transferred to the relevant parts of the organisation, accelerating our continuous improvement cycle. To date good progress has been maintained on our journey to become a proactive organisation.

Read more on pages 40 to 49

PEOPLE AND OUR COMMUNITY

Chemring people are at the heart of our business and are our greatest asset. Engaged, motivated, empowered and appropriately skilled colleagues are integral to our success as it is through them that we will progress our strategy and deliver long-term growth.

In 2022 we continued to develop Chemring's culture with actions delivered both within the individual business units and globally. In doing so we have continued to develop our people, ensuring that they are able to do their best work every day. Development programmes are now in place for all colleagues in management roles and for our Early Careers colleagues. Allied to the Talent and Succession framework launched in 2021, these programmes support the development of our future leaders as well as providing a platform for continuing the development of the Chemring culture.

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

Early Careers colleagues form an increasing proportion of our population and in 2022 we welcomed over 80 graduates and apprentices into our businesses in the UK. The UK wide Early Careers Development programme, which was launched in year, complements the technical development provided through each business unit by providing early leadership and skills development.

Listening to our colleagues is a key pillar of our approach to developing the Chemring culture. As the non-executive director with responsibility for employee engagement on behalf of the Board and as Chair of the Remuneration Committee, Laurie Bowen again met with groups of colleagues across Chemring to hear their experiences of working at Chemring. These sessions also provide the opportunity for Laurie to share with colleagues the work of the Board. This year these groups included colleagues at all levels from operators to the senior leadership teams at Chemring Countermeasures in Toone, Tennessee, and at Chemring Energetic Devices in Downers Grove, Illinois. The groups Laurie met were very positive about their experiences of working at Chemring and were particularly upbeat about the different activities and events now possible since the easing of CV-19 restrictions. Once again Laurie was able to gather input as to how we can continue to develop, and colleagues provided clear and constructive input on areas of additional focus which are being acted on.

Read more on pages 50 to 56

GOVERNANCE AND ETHICS

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

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

Chemring remains committed to conducting its business in an ethical and responsible manner at all times, and in full compliance with all applicable laws and regulations. We will continue to strengthen our policies and procedures to ensure that the Group's governance remain fit for purpose.

The bedrock of our governance is our Code of Conduct and our Operational Framework, both of which bind our purpose, values, behaviour, policies and procedures, and provide the necessary governance to enable us to operate in a safe, consistent and accountable way. Our Ethics & Compliance Committee, which meets regularly throughout the year and is chaired by me, is responsible for the oversight and monitoring of Chemring's governance framework and ethical business conduct and compliance.

Further details on the Committee's activities during the year can be found on page 57 of this report.

Good governance and ethical behaviour underpin our evolving sustainability agenda and ensure that we operate safely, responsibly and in compliance with applicable legislation in all of the jurisdictions in which we operate.

DIVIDENDS

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

The Board is recommending a final dividend in respect of the year ended 31 October 2022 of 3.8p (2021: 3.2p) per ordinary share. With the interim dividend of 1.9p per share (2021: 1.6p), this results in a total dividend of 5.7p (2021: 4.8p) per share, an increase of 19% on the prior year. If approved, the final dividend will be paid on 14 April 2023 to shareholders on the register on 24 March 2023. In accordance with accounting standards, this final dividend has not been recorded as a liability as at 31 October 2022.

CURRENT TRADING AND OUTLOOK

Trading since the start of the current financial year has been in line with expectations. The Board's expectations for the Group's 2023 performance are unchanged, with the balance of its trading performance in 2023 expected to have a greater bias towards the second half of the financial year as a result of the delays to order intake in 2022 following the US Continuing Resolution. The Group order book as at 31 October 2022 was £651m, of which £403m is currently expected to be recognised as revenue in 2023, giving 86% order cover, which provides excellent visibility for the full year.

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

Carl-Peter Forster
Chairman
13 December 2022

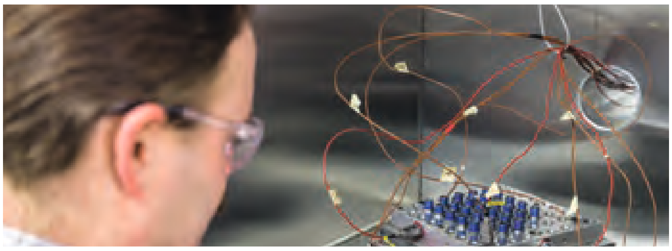
MARKET OVERVIEW

CHANGING MARKET DYNAMICS

Chemring is an international technology company, and we have a significant organisational footprint in the US, the UK, Europe and Australia. Recent geopolitical and technology trends are rapidly reshaping many defence markets, with Russia's invasion of Ukraine having a profound impact on defence spending and priorities, including likely, accelerated NATO expansion.

Simultaneously with this new era of defence spending in Europe, the US is increasing its investment and action to strengthen its position towards an assertive China with its own extensive defence and military modernisation programmes. Alongside the high-intensity, kinematic, conflict between Russia and Ukraine, sub-threshold "grey-zone" activity – including the extensive use of digital-based threats e.g. cyber-attacks and disinformation campaigns, continue to be prevalent. The Group's diverse and niche capabilities make it well placed to support our customers' abilities to address this continuum of current and emerging threats.

UNITED STATES



TOTAL SPEND

Source SIPRI

OUR POSITION

Our US-based countermeasures business is the market leader in expendable infra-red ("IR") pyrotechnic decoys that protect airborne and naval assets from guided missiles, whereas our US energetics business has a strong position in the design, development and manufacture of precision engineered devices for distinct aerospace and defence applications including space and missiles.

We are also the largest provider of advanced chemical and biological sensors to the US DoD, and supply and sustain ground-penetrating radar systems for the Husky vehicle. Additionally, our Roke USA business is driving a campaign to leverage Roke's UK capabilities for addressing US, mission-critical, land electronic warfare ("EW") requirements with growing budgets.

MARKET TRENDS

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

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

There are also plans to increase the US presence in Europe to address the acute threat from Russia, and partnerships with NATO allies will form part of this response to increased Russian aggression. US modernisation priorities were already geared toward great power competition before Russia's invasion of Ukraine, and these investments will now be accelerated.

OUR CHALLENGES AND OPPORTUNITIES

Our US businesses continue to work under a Continuing Resolution, which brings with it a level of risk. However, the US's strong focus on advanced capability enablers and R&D can create opportunities for us to deploy Group-wide capabilities and technologies particularly in the customer priorities of space, hypersonic technology, EW, sensors, biotechnology, artificial intelligence ("AI"), cyber and quantum computing.

Finally, the advanced capabilities of the F-35 Lightning II is well suited to highly contested airspaces and our contribution to this core air platform's countermeasures suite supports our leadership position in this capability area.

LINK TO STRATEGY (see page 24) 3

UNITED KINGDOM

TOTAL SPEND

Source SIPRI

OUR POSITION

In the UK, the Group through our Roke business unit, has a significant role in the design, development and supply of innovative solutions in EW, sensors, communications, cyber and AI, for national security and defence customers in particular.

Our UK countermeasures business is the world leader in protecting air and naval forces from the threat posed by guided missiles, through the design, development and supply of radio frequency ("RF") and IR pyrotechnic decoys, while our UK energetics business has a critical role in the design, manufacture, assembly, testing and through-life support of advanced energetic products for defence, security and commercial markets.

MARKET TRENDS

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

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

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

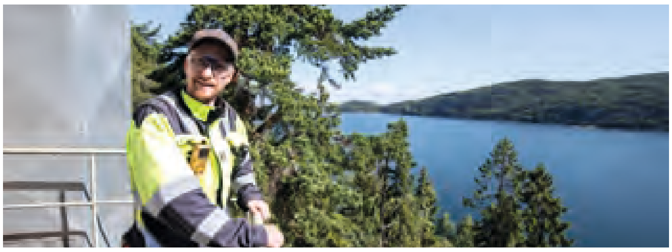
OUR CHALLENGES AND OPPORTUNITIES

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

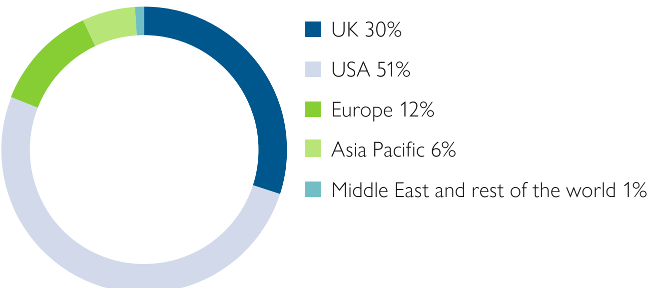
The enhanced focus on S&T, AI, data science and autonomy as set out in the Integrated Review, with the creation of new military and security constructs that are data and intelligence driven, will enlarge the opportunity space for Roke to deploy its unrivalled capabilities to address these next-generation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

LINK TO STRATEGY (see page 24) 1 2

EUROPE



GLOBAL SALES
% of Chemring's global sales (2018 – 2022)



OUR POSITION

Although the Group continues to vie with highly capable competitors and national champions in Europe, we have succeeded in selling countermeasures, EW systems and improvised explosive device ("IED") detectors to several European customers including Germany, France, Italy and Spain. Additionally, our Norwegian based business provides energetic materials to many leading prime contractors across the region.

MARKET TRENDS

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

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

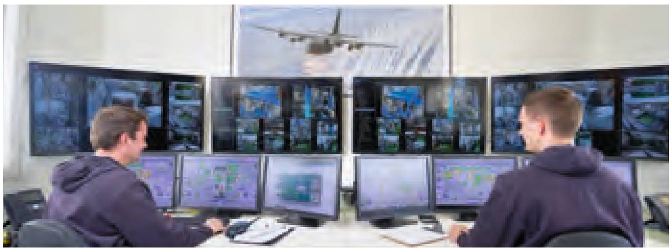
France has announced it will review its Loi de Programmation ("Programming Law") owing to the changed geopolitical situation, and a new era of German foreign and security policy has been heralded with the creation of a special fund of €100bn to be spent on defence procurement and a commitment to allocate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

OUR CHALLENGES AND OPPORTUNITIES

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

LINK TO STRATEGY (see page 24) 1 2

AUSTRALIA



OUR POSITION

Chemring's in-country capabilities are founded on our integral place in the F-35 Lightning II international countermeasures supply-chain. Chemring Australia is the country's pre-eminent manufacturer and supplier of airborne countermeasures, and the modern Lara plant is the world's most advanced manufacturing facility for such products.

MARKET TRENDS

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

OUR CHALLENGES AND OPPORTUNITIES

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

LINK TO STRATEGY (see page 24) 1 2

"The Australia – United Kingdom – United States ("AUKUS") partnership is maturing trilateral lines of effort within critical defence and security capabilities including undersea capabilities, quantum technologies, AI and autonomy, advanced cyber systems, hypersonic and counter-hypersonic capabilities, EW, innovation and information sharing."

The White House Briefing Statement
US President
5 April 2022

GROUP CHIEF EXECUTIVE'S REVIEW

CREATING SUSTAINABLE VALUE AND OPPORTUNITY FOR ALL OUR STAKEHOLDERS

Michael Ord
Group Chief Executive

"This has been a year of strong operational and financial performance across the Group. Our focus on building a stronger, higher quality and more resilient business has enabled us to negotiate numerous near-term challenges and the Group remains well placed to maintain its delivery of sustainable performance and growth."

INTRODUCTION

The Group has delivered another year of good growth in 2022. This was achieved despite pandemic-related operational and supply chain challenges, higher energy costs, labour market shortages, increased inflation and the significant disruption within the US defence market caused by the extended Continuing Resolution that delayed approval of the US Government budget until the middle of March 2022.

The current geopolitical uncertainty, brought about by both Russia's invasion of Ukraine and increased competition with China, has highlighted the essential role that the defence industry plays in society. Delivering in support of our customers and their critical needs has never been more important, and I am again hugely grateful to all my colleagues across Chemring. The response of our people and their families has been outstanding and this team effort has delivered results that exceeded our expectations at the start of the year.

In response to the current threat environment, defence spending is expected to rise and with it we can expect to see strengthening demand for the Group's capabilities. Partnerships and alliances, such as Five Eyes, AUKUS and NATO, are seen as becoming increasingly important, and this is expected to drive greater co-operation and alignment between allies. In particular, the increased importance that is being placed on Cyber and EW, information advantage, intelligent networks and multi-domain integration, is expected to maintain and accelerate demand for Roke's market-leading technologies.

The Group is well positioned with a robust strategy and a relentless focus on safety, operational excellence and growth.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

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

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

HEALTH AND SAFETY

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

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

Our HSE strategy this year has focused on three core areas of activity:

CONTROL OF MAJOR ACCIDENT HAZARDS

Over the last three years, we have implemented a number of processes to enhance our focus in this area by ensuring we design, maintain and operate to the highest standard. We continue to invest in modern processes and technology to remove our employees from exposure to energetic hazards. During the design of these processes we have placed more scrutiny on the application of process hazard analysis.

In 2019 we mandated that all Countermeasures & Energetics businesses would need to conduct regular reviews to identify the potential for major process safety events. This year saw the fourth iteration of that review process, with an increase in the number of hazard scenarios being identified as the rigour of process hazard analysis matured. As a result of this maturing process, we continue to deepen our understanding of our residual risks and throughout the year have taken steps to reduce these to a level as low as is reasonably practicable.

INJURY REDUCTION

Injury prevention focuses on the reduction of injuries through the adoption of safety as an inherent part of everything we do. This is enacted through safety leadership, clear expectations, accountability and establishing a safety culture that drives learning and improvement, not blame.

This year we consolidated our corporate reporting platform to capture better understanding of root causes and increased levels of assurance. These additional data points will help our continued focus on becoming a learning organisation. This data has established trends regarding musculoskeletal disorders due to the manual handling nature of some of our processes together with cuts to fingers and hands. The relevant businesses have developed plans to reduce the risk of injuries and it is expected that this will be reflected in future reporting.

HSE RISK MANAGEMENT

Safe delivery of our business continues through the management of risk and is built around understanding our hazards, and establishing clear expectations and consistency. Our HSE Management System Framework Standard puts our HSE policy into practice by setting standards on eight core elements across the Group to drive a robust and common approach to the management of HSE. Each business is audited every two years to ensure compliance, with high-priority non-compliances being reported and monitored at Executive Committee level. The changes made last year to our Operational Assurance Statement process have helped the businesses focus on strengthening their processes within the HSE framework requirement, which in turn provides useful insights when planning the Line of Defence 2 ("LOD2") audits.

Our focus on injury prevention continues to place more emphasis on safety measures for people working from home and their mental and emotional wellbeing, and is now supported by the newly formed Group-wide Healthy Workplace Sub-Committee.

REVENUE
+13%

NUMBER OF ENERGETIC EVENTS CAUSING HARM OR INJURY
Nil

We measure our overall HSE performance to reflect both occupational safety and process safety. In doing this we have multiple data points, one of which is an external independent review of our safety culture. This year saw the third review since 2018 by a team of specialist consultants from global subject matter experts, ERM. The review, which was based on progress made since 2018 and 2019, has highlighted good progress as we journey towards becoming a high reliability organisation. In particular the review confirmed our businesses as approaching a Group-wide calculative status with robust processes and systems generating data and signals around our high-hazard operations. The level of collaboration has also increased with many businesses sharing best practice on a regular basis to help accelerate our performance, all of which is supported by a positive tone from the top and underpinned by risk-informed, visible and proactive safety leadership.

ENVIRONMENT

In 2022 we achieved a 7.3% carbon reduction in both scope 1 and 2 emissions as part of our ongoing commitment to becoming Carbon Neutral by 2030. A key challenge for the Group's Sustainability Committee is to manage our ESG-related risks – balancing both the near and longer-term targets that were set in FY21, with the need to continually look for ways in which we can improve further.

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

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

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

2022 PERFORMANCE

It is pleasing to report a strong set of results for the financial year despite a number of operational and market headwinds. This performance, which was ahead of the Board's expectations at the start of the year, demonstrated continued progress against our strategic goal of balancing short-term performance with longer-term value creation.

Revenue was up 13% to £442.8m (2021: £393.3m), underlying operating profit was up 11% to £64.0m (2021: £57.5m) and statutory profit before tax was up 6% to £51.8m (2021: £48.8m). Underlying earnings per share was up 20% to 20.2p (2021: 16.9p).

The underlying operating profit from continuing operations of £64.0m (2021: £57.5m) resulted in an underlying operating margin of 14.5% (2021: 14.6%), achieving the mid-teen Group margin objective that we set out in early 2019. The flat margin primarily reflects the improvement in operational execution in Countermeasures & Energetics offset by the operating expense investment in Roke Academy, Roke Futures and Roke USA.

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

Roke's order intake during the year was up 59% to £168m (2021: £106m) with revenue for the year exceeding £100m for the first time. A significant order, Hyperion, valued at £26m was awarded under the Serapis framework contract with the UK Government. It will develop the next generation of phased array radar technologies to address the challenges associated with hypersonic missile defence.

In the last four years successful execution of its strategy has seen Roke double in size. Its headcount has increased from c.400 at the end of 2018 to over 800 today, driven in part by the success of its graduate and apprenticeship schemes, which saw 71 new joiners in September 2022. Building on this success, Roke has invested in the launch of the Roke Academy. This unique offering will be a centre of excellence for learning and development and is designed to target the recruitment and development of undiscovered talent, and the enhancement of skillsets within the business.

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

The acquisition of Geollect Limited in December 2022 creates further opportunities for Chemring to enhance and further accelerate growth in its Roke business. With demand for open source intelligence ("OSINT") and commercially curated intelligence growing at 28% CAGR, Roke's customers require an exponential increase in capability to achieve digital advantage against complex threats.

CAPITAL ALLOCATION POLICY

INVESTMENT CAPEX

Continued investment to support organic growth through enhanced capacity and automation to drive margin improvement

DIVIDENDS

Recognising that dividends are a key part of total shareholder return. The Group targets a medium-term dividend cover of c.2.5 times underlying EPS, subject *inter alia* to maintaining a strong financial position

MERGERS AND ACQUISITIONS

Focus on Sensors & Information, in particular Roke, technology bolt-on acquisition targets to accelerate growth and corporate development

SHARE BUY BACK

Low risk, high return on investment option for excess cash which creates value for long-term holders

2022 PERFORMANCE continued

The acquisition will enable Roke to build on its Intelligence as a Service ("Roke IaaS") proposition by utilising the intelligence gathering and analysis capabilities of Geollect, and enhancing their already impressive processing capabilities with Roke's innovative approach to AI, machine learning and data science.

The strategic goal for Roke is to continue to focus on growth across all its business areas in the UK, and to leverage international markets, especially the US, to give Roke a wider international presence.

Roke USA continues to support the customer with a view to securing further EW orders from this potentially significant market. We continue to invest in establishing our Roke USA business and during the year established a sales and engineering office in the US, and hired staff with the required security clearance. This investment has allowed us to support ongoing customer demonstrations and field trials. Customer feedback remains very positive albeit anticipated follow-on orders have been delayed as a result of budget restrictions caused by the US Continuing Resolution, which was lifted in March 2022.

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

Chemring's experience and expertise in fielding biological agent detectors for its US DoD customers, covered below, provides a strong platform from which to pursue opportunities in existing and adjacent markets, such as homeland security. Chemring continues to invest in its Mobius R&D project, which aims to develop a deployable and cost-effective solution for the identification of biological threats.

Chemring is also working with the US Department of Homeland Security Countering Weapons of Mass Destruction ("CWMD") Office to design, develop and deliver an aerosol bio-sensor that can detect, classify, and provide presumptive identification in real time of pathogenic bio-threats in both indoor and outdoor environments. Chemring's technology dramatically shortens the time taken to identify the bio-threat, which is critical to rapidly implementing an effective response. Chemring's product is also considerably less expensive to procure and operate than current equipment, thus allowing the customer to afford greater unit coverage while remaining within their budget.

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

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

The sole source Joint Biological Tactical Detection System ("JBTDS") program is progressing as planned through the Engineering & Manufacturing Development ("EMD") phase and we are now working with the customer to determine timings for the program to transition to Low Rate Initial Production ("LRIP") and Full Rate Production ("FRP") thereafter. The next customer procurement decision is now expected in H1 2023.

The Aerosol and Vapor Chemical Agent Detector ("AVCAD") program has now completed its EMD phase. The next customer procurement decision point is now also expected to be in H1 2023. Chemring remains one of two contractors currently selected for this competitive program.

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

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

In FY22 the focus for our Countermeasures & Energetics sector was to continue strengthening and protecting our niche, world-leading positions by continuously improving our technological and operational base, and by working closely with our customers in the development of new solutions to meet emerging needs.

In the UK, Chemring Countermeasures UK ("CCM UK") signed a Strategic Partnering Arrangement ("SPA") with the Royal Air Force, Defence Equipment & Support ("DE&S") and the Defence Science and Technology Laboratory ("DSTL"), to ensure long-term provision of optimum air platform protection, including the exploitation of current capabilities and the development of new technology. This ten-year SPA will provide a framework for development, allowing CCM UK to provide the best solutions for protection of all UK fast jet, transport and helicopter platforms fitted with self-defence systems. Where appropriate, it will also allow CCM UK to make such decoy technology available to a wide range of allies and partner nations, increasing survivability of aircraft and aircrew.

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

Our niche energetic devices businesses enjoyed another strong year of customer demand and improving operational execution. Order intake for the year was up 37% to £137m (2021: £100m). The specialised and high reliability nature of our products was demonstrated in May 2022 when Boeing launched its passenger spacecraft, CST-100 Starliner, to the International Space Station ("ISS"). Chemring provided various mission-critical components on the Atlas V, as well as components for the landing sequence for Starliner's return home, all of which were manufactured at our Chicago facility and all of which were critical to the success of the mission.

The future focus for the Countermeasures & Energetics sector remains on safeguarding and growing the Group's market-leading positions in niche markets through the modernisation and automation of our manufacturing facilities, and in improving our competitiveness through investment in lean manufacturing capabilities and developing new products and technologies.

The Group's order book at 31 October 2022 was £651m (2021: £501m), of which approximately £403m is scheduled for delivery during 2023, representing cover of approximately 86% (2021: 84%) of expected 2023 revenue. On a constant currency basis using the 2021 closing exchange rates the order book would be £604m. The remaining increase since 31 October 2021 is attributable to strong order intake at Roke and across the Countermeasures & Energetics sector.

This leaves £248m of the order book to be delivered in FY24 and beyond. At this stage, this provides approximately 40% cover of expected FY24 revenue.

Net debt at the year end was £7.2m (2021: £26.6m), the decrease since 31 October 2021 being largely attributable to strong operating cash generation offset by the investment in capital projects in the year. Strong operating cash inflow of £90.1m (2021: £80.0m) represented 109% (2021: 105%) of EBITDA. Our three-year rolling average cash conversion has been 108% (2021: 107%), showing that the ongoing focus on working capital improvements is delivering long-term, sustainable positive results.

CULTURE

Chemring people are at the heart of our business. Engaged, motivated, empowered and appropriately skilled colleagues are integral to our success which is founded in the quality of our people. It is imperative that we are able to sustain an environment where we have the right people, in the right place, at the right time, with the right skills working in a safe, healthy and inclusive environment. We continue to invest in our people at all levels across every location and function creating strong foundations for our future success.

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

2022 saw the gradual easing of the pandemic restrictions in every geography. This enabled renewed focus on bringing colleagues together both socially and for professional networking and sharing of ideas. Alongside this we have been able to meet with customers and third parties at all our locations for the first time in nearly two years and to re-establish international travel enabling colleagues to reconnect face to face. Whilst I have been incredibly impressed at how the whole business has been able to embrace remote working protocols and virtual interactions, there is no substitute for face-to-face discussions to further both our approach to operational excellence and to continue the development of our culture.

Our online Employee Voice tool which measures employee sentiment in real time, continues to underpin our approach to measuring how far we have come in achieving our cultural aspirations. Dashboards help business units understand how colleagues are feeling and where we need to focus. Participation with the tool and positivity towards the key cultural themes continue to show improvements throughout 2022 despite the challenges of the past two years and this positive trend is a testament to the hard work of the business unit leadership teams in ensuring each business provides a positive and engaging workplace.

Making sure that we have an appropriately diverse pool of talent within the organisation is a key enabler and our wider focus on DE&I continued across 2022.

This year has seen both formal and informal networking groups developing in each business unit. These are designed to support and connect colleagues with shared characteristics or interests and complement the more formal work we are doing around education and awareness of diversity and inclusion. Notably in 2022 every business has established a Women's Network to support our female colleagues at all levels and in all roles. Women make up 30% of the Chemring population overall. These networks are part of our ongoing focus on this key population and support both engagement and future success of female colleagues.

DISCOVER MORE ABOUT OUR CULTURE

CHEMRING WOMEN'S INCLUSIVITY NETWORK

14 September 2022 marked Chemring's first International Women's Inclusivity Network (WIN@Chemring) day. Celebrated across Chemring, the day was an opportunity to raise awareness of the issues surrounding gender diversity in the workplace. It was also a day to celebrate some of the great things going on locally across the business in support of and organised by the women of Chemring.

The network is all about building a community locally while sharing great ideas and knowledge across the Group. The intention of this event is that it provides a focus for the women's network groups in each part of the business – both new and existing networks – and to leave a legacy that continues far beyond the September event.

These networks form part of the established strategy and framework around DE&I at Chemring which started in 2021 with a programme of ensuring corporate and personal awareness of the importance of a diverse population, an inclusive culture and systems that help support equality and drive equity. The programme of workshops put in place for all our senior leaders and managers in 2021 continued across 2022 and was extended to include first-time line managers and our Early Careers colleagues.

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

CONCLUSION

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

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

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

Michael Ord
Group Chief Executive
13 December 2022

BUSINESS MODEL

CREATING VALUE

We focus on providing innovative capability solutions that reliably meet our customers' critical requirements on time, and every time.

WHAT WE DO

INVEST IN PEOPLE, PROCESSES AND PRODUCTS

Chemring is a technology business with approximately 2,300 employees worldwide. We invest in our future by developing the capabilities of our people, maintaining safe and efficient operations and developing next-generation solutions to meet our customers' current and emerging needs.

BIDDING AND WINNING ORDERS

We operate in niche segments of the international defence and security market. Our focused investments ensure we are competitively positioned to offer advanced and dependable technology solutions to meet our customers' needs, and we continually look for new growth opportunities to deploy our capabilities. In Countermeasures & Energetics, we are the world's largest supplier of countermeasures, through our leading technology and manufacturing position. Our niche energetics businesses win orders based on the technical performance and superiority of our products. In Sensors & Information, we maintain our leadership position in multiple technologies to develop differentiated solutions for meeting ever more demanding customer requirements.

DELIVER SOLUTIONS

We focus on providing innovative and competitive solutions that meet our customer needs efficiently and on time. In addition to our capital and technology investments, we also invest in continuous improvement – a key element of minimising the cycle time from order to delivery.

KEY STRENGTHS

EMPLOYEES

We have a highly skilled and knowledgeable workforce operating in specialist capability areas. Their expertise is critical to us delivering innovative solutions to our customers' challenges.

SUPPLIER COLLABORATION

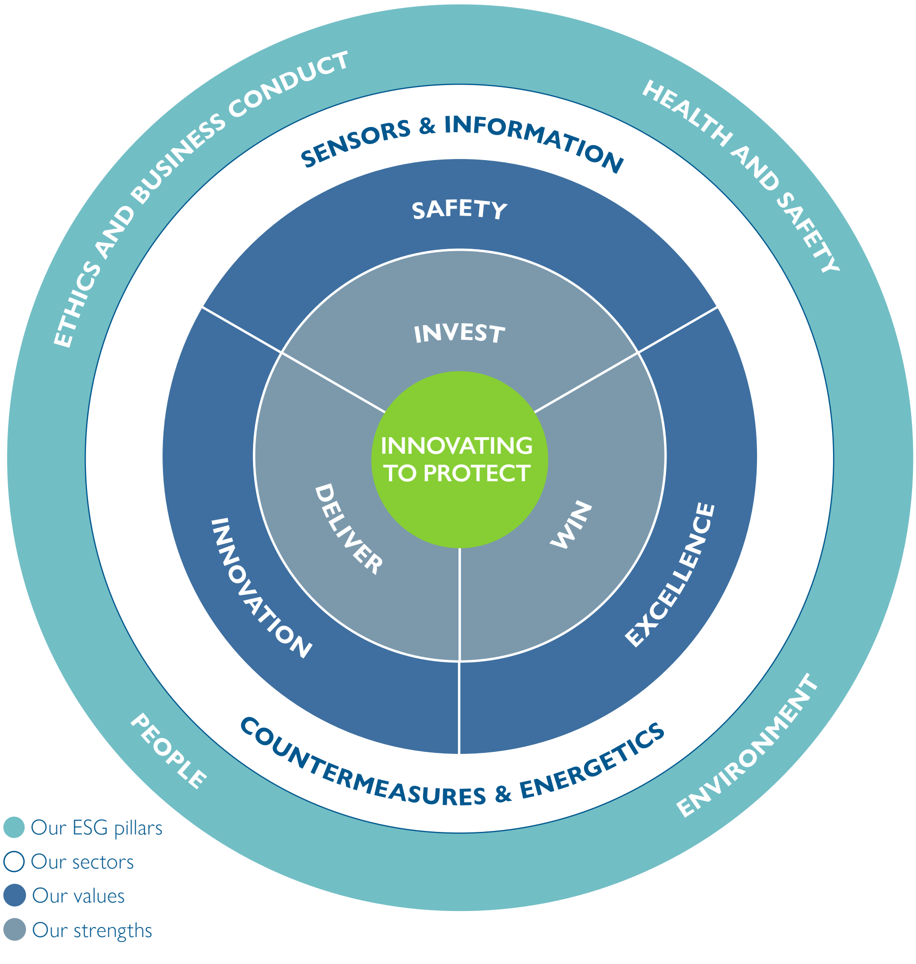
We maintain close relationships and collaborate closely with our suppliers to enhance customer value.

CUSTOMER RELATIONSHIPS

We enjoy long-term, high quality relationships with defence and intelligence customers in the member countries of the multilateral "Five Eyes" (the US, the UK, Canada, Australia and New Zealand) alliance. We have opportunity-specific relationships in selected other markets where we can apply our capabilities.

FACILITIES

We are investing in the resilience of our facilities, including increasing automation to deliver our products safely, securely and efficiently.



OUR VALUES

SAFETY

We place safety at the heart of everything we do.

- We ensure we operate safely and manage risk.
- We promote best safety practices across our operations and beyond.
- We are committed to ensuring we minimise our impact on the environment.

EXCELLENCE

We are focused on ensuring we consistently meet high standards in all that we do.

- A culture of continuous improvement is core to our approach.
- We act to ensure that we maintain and deliver operational excellence.
- We always deliver on our promises.

INNOVATION

We create world-class solutions and develop world-class thinking.

- We inspire imaginative solutions.
- We work together to turn ideas into technologies and solutions.
- We value collaboration and sharing experience.

Read more about our sustainability on pages 37 to 39

OUTCOMES

INVESTMENT

Our investment in property, plant and equipment in the year totalled £38.5m. In addition, we invested £79.7m in product development, of which £69.7m was customer-funded. The capacity expansion project at the Tennessee countermeasures site continues to progress on schedule and, excluding significant investments such as this, we aim for investment to at least match depreciation and amortisation each year.

INVESTMENT

£118.2m

(2021: £88.9m)

CASH FLOW

We aim to convert 100% of underlying EBITDA underlying operating cash flow over the medium term, accepting that timing differences will arise at individual period ends. In 2022, the conversion ratio was 109%, reflecting strong operating cash generation and the continued focus on managing working capital.

UNDERLYING CASH CONVERSION

109%

(2021: 105%)

DIVIDENDS

For the year ended 31 October 2022, our dividend will be 5.7p per share (2021: 4.8p), an increase of 19% on the prior year, subject to the approval of the final dividend at the Annual General Meeting.

DIVIDENDS

5.7p

(+19%)

SUSTAINABLE STAKEHOLDER VALUE

CUSTOMERS

Our customers are governments, prime contractors and other commercial businesses. We provide innovative solutions to satisfy their requirements.

INVESTORS

We return money to our shareholders through dividends and, through successfully executing our strategy, we grow the value of their investment over time.

EMPLOYEES

The skills and experience of our employees are essential for us delivering our customer commitments. We provide development opportunities and a safe, stimulating and rewarding working environment for all of our people.

SUPPLIERS

We form strong relationships with our suppliers who partner with us to deliver innovative solutions and are supported consequently through our procurement of their goods and services.

COMMUNITIES

We make a positive contribution to the communities where our people live and work by actively supporting the development of local economic prosperity through providing high value jobs.

GOVERNMENTS

Through paying taxes in the jurisdictions in which we operate, we support the development of public infrastructure and services such as healthcare, transport systems, policing and education.

Read more about our stakeholders on pages 21 to 23

CLIMATE CHANGE

We recognise the profound impact of climate change. We are actively seeking ways to reduce our effects on the environment and build resilience to climate change by focusing on energy, waste and understanding the impact of global climate change on our operations.

Read more on pages 42 to 49

SECTION 172 STATEMENT

RESPONDING TO OUR STAKEHOLDERS' NEEDS

Section 172 (1) of the Companies Act 2006 requires the directors to act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing so, section 172 requires the directors to have regard, amongst other matters, to the:

- likely consequences of any decision in the long term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

In discharging our section 172 duties the directors have regard to the factors set out above and any other factors which we consider relevant to the decision being made. We acknowledge that every decision we make will not always result in a positive outcome for all of our stakeholders. However, by considering the Company's purpose, vision and values, together with our strategic objectives and having a process in place for decision making, we aim to ensure that our decisions are considered and proportionate.

Further details on how the Board operates and reflects stakeholder views in its decision making are set out in the corporate governance report on pages 80 to 89. Further information on how the Board has had regard to section 172 matters during the year can also be found in the following sections of the annual report:

SECTION 172 FACTOR	KEY EXAMPLES	PAGE
CONSEQUENCES OF ANY DECISION IN THE LONG TERM	- Our purpose in action - Investment case - Business model - Market overview - Strategy	6 8 18 12 24
INTERESTS OF EMPLOYEES	- Our purpose in action - Stakeholder engagement - Health and safety - Our people	6 21 40 50
FOSTERING BUSINESS RELATIONSHIPS WITH SUPPLIERS, CUSTOMERS AND OTHERS	- Business model - Stakeholder engagement - Market overview - Strategy - Ethics and business conduct	18 21 12 24 57
IMPACT OF OPERATIONS ON THE COMMUNITY AND THE ENVIRONMENT	- Introduction to sustainability - Health and safety - Environment - Our people	37 40 42 50
MAINTAINING HIGH STANDARDS OF BUSINESS CONDUCT	- Ethics and business conduct - Corporate governance report	57 80
ACTING FAIRLY BETWEEN MEMBERS	- Investment case - Stakeholder engagement - Corporate governance report	8 21 80

STAKEHOLDER ENGAGEMENT

The Board recognises that positive interaction and collaboration with all of our stakeholders is essential to the delivery of sustainable long-term value. Effective engagement allows the Board to understand relevant stakeholder views on material issues which may impact the business and helps to inform the Board's decision making.

We engage with a wide range of stakeholders at the Board level, at a Group level and within our business units. In understanding what matters to our stakeholders we are able to take this into account when setting our strategy and also in planning our day-to-day business operations. The table below sets out how we engage with our key stakeholders.

CUSTOMERS

WHY WE ENGAGE

Ensuring that we provide innovative solutions that meet our customers' needs, efficiently and on time, is crucial to the delivery of our strategy and the long-term success of the business. Understanding our customers' needs can only be achieved through regular interaction and collaboration.

HOW THE BUSINESS ENGAGES

- Regular meetings, teaming arrangements and engagement at all levels of our customers' organisations
- Partnering with customers on a broad range of technology and product development programmes
- Participating in industry forums and working groups, and hosting customer visits to our sites
- Attending and exhibiting at selected trade shows, which enables high-level interaction and the opportunity to brief customers on key product developments and other initiatives

HOW THE BOARD ENGAGES

- The Group Chief Executive and President of our US operations support our businesses through regular interactions with senior customer representatives, and provide feedback to the Board
- External market updates and customer views are obtained to support the Board's strategy review
- Our US Government Security Committee works closely with the US Government to ensure that we operate in full compliance with our Special Security Agreement and updates the Board on a regular basis
- Site visits enable the Board to develop a deeper understanding of our products, technical capabilities and customer requirements

HOW WE MONITOR

- Order intake
- R&D expenditure
- Capital investment
- Process safety events

OUTCOMES

- Customer-focused inputs into the Group strategy
- Innovation and investment driven by customer requirements
- Collaborative, strategic customer relationships
- Improved customer satisfaction

LINK TO STRATEGY

1 2 3

EMPLOYEES

WHY WE ENGAGE

Our people are at the heart of our business. They are critical to the delivery of our strategy and the future growth of the business. We recognise the importance of attracting, developing and retaining the best talent, and the need to provide a safe and inclusive environment where individuals can thrive.

HOW THE BUSINESS ENGAGES

- Regular all-hands meetings and team briefings
- Works councils, trade unions, representative bodies and forums which support and connect people with shared characteristics or interests
- Our real-time employee engagement tool, "Employee Voice", enables employees to provide immediate and anonymous feedback on developments within the business
- Publication of a monthly video blog by the Group Chief Executive, regularly featuring other members of the senior leadership team
- Publication of regular company notices and the in-house magazine, Chemring-I, which features news and events from across the Group
- Development programmes and succession planning

HOW THE BOARD ENGAGES

- Monthly reporting to the Board on health and safety matters
- Output from Employee Voice is regularly provided to the Board and supplemented by periodic culture "check-ins" facilitated by an external consultant
- Direct engagement with the Board's nominated non-executive director, Laurie Bowen, through meetings with colleagues from across the business and at different levels of the organisation
- Board engagement with a wide range of employees during collective and individual site visits throughout the year
- Nomination Committee reviews diversity initiatives, senior leadership succession plans and talent development programmes

HOW WE MONITOR

- Employee Voice participation and positivity scores
- Safety performance indicators
- Diversity statistics
- CEO pay ratio
- External ESG ratings

OUTCOMES

- Development of people strategy and related investment
- Safe, healthy and motivated workforce
- Focus on diversity and inclusion
- Improved employee retention
- Attractive proposition for potential new employees

LINK TO STRATEGY

1 3

SUPPLIERS

WHY WE ENGAGE

We rely on our suppliers to provide us with quality raw materials, products and services. Constructive engagement ensures that our suppliers are able to meet our high expectations on safety, quality, value, delivery performance and ethical business conduct. We recognise that prompt payment terms and strong supplier relationships are important in building a long-term, sustainable and supportive supply chain.

HOW THE BUSINESS ENGAGE

- Day-to-day interaction with suppliers is conducted largely by supply chain management teams within our businesses
- Long-term agreements are entered into with our key suppliers, which provide visibility on future requirements and enable us to agree performance targets to assist with our drive for continuous improvement
- All suppliers are issued with our Supplier Code of Conduct, which sets out the standards of ethical business conduct we expect of them

HOW THE BOARD ENGAGES

- Business continuity and supply chain dependency reviews included within the internal audit programme
- Reports on supplier due diligence and compliance reviewed by the Ethics & Compliance Committee
- Annual consideration and approval of the Modern Slavery Act Statement

HOW WE MONITOR

- Payments made within payment terms
- Statistics on issue of the Supplier Code of Conduct and inclusion of suppliers in the Chemring Compliance Portal

OUTCOMES

- Collaborative, long-term relationships
- Delivery of safe and reliable products and services to customers
- Appropriate working capital management

LINK TO STRATEGY

1 3

SHAREHOLDERS

WHY WE ENGAGE

The continued support of our shareholders is something that we value greatly. We therefore recognise the importance of providing all of our shareholders with regular updates on the Group's operational and financial performance, strategy and future prospects, and ensuring that shareholder views are taken into consideration in relation to major developments in the business.

HOW THE BUSINESS ENGAGES

- Engagement with shareholders predominantly led by the Group Chief Executive, the Chief Financial Officer and the Group Director of Corporate Affairs
- Publication of our interim and full year results statements, along with regular trading updates throughout the year
- Sustainability Report published on our website
- Face-to-face meetings or video calls following the publication of any significant news update or at the request of the shareholder
- Formal presentations and structured roadshows for our institutional investors following the publication of the Group's interim and full year results
- Our website provides financial, business and governance information on the Group and an alerts service enables subscribing shareholders to receive notification of corporate updates

HOW THE BOARD ENGAGES

- Board receives feedback collated by our brokers and other financial advisers from our institutional investors, in which their views can be expressed on a non-attributable basis
- Our Annual General Meeting provides the opportunity for our private shareholders to hear from and engage directly with the Board
- The Chairman, the Senior Independent Director and Chair of the Remuneration Committee meet with shareholders to discuss specific matters

HOW WE MONITOR

- Earnings per share
- Dividends paid
- Total shareholder return
- ESG metrics
- External ESG ratings

OUTCOMES

- Development of capital allocation and dividend policy
- Development of ESG strategy
- Supportive, long-term shareholder base
- Access to funding

LINK TO STRATEGY

1 2 3

COMMUNITIES AND THE ENVIRONMENT

WHY WE ENGAGE

We recognise the important role that each of our businesses play in their local communities and we actively encourage our businesses to support local initiatives and charitable causes. Equally, our businesses take pride in the contribution that they make to their local communities, both as a local employer and in the work they do to support good causes. We also recognise the impact of our business on wider society and our responsibility to contribute to a sustainable future for all.

HOW THE BUSINESS ENGAGES

- Our community investment policy confirms our commitment to support selected charitable causes with a focus on the military and armed services, STEM-related initiatives and those linked to the local communities in which our businesses operate
- Each business has its own locally held charity budget and at a Group level charitable donations are considered by the Executive Committee
- In addition to making cash donations, we also encourage and support employees who undertake voluntary work in the local community
- Our people across the Group are involved with a number of educational initiatives and as a business we have relationships with several universities, whereby funding is provided for students' research activities
- Sponsorship through the Horizons Bursary Scheme run by the Institution of Engineering and Technology, which provides financial support during degree study for students who have faced or continue to face adversity whilst they study; these students are all studying STEM degree courses which are relevant to the disciplines required within Chemring
- Implementation of environmental and carbon reduction initiatives

HOW THE BOARD ENGAGES

- Development of ESG strategy, objectives and targets subject to Board oversight
- Sustainability Committee, chaired by the Group Chief Executive, reports regularly to the Board on ESG-related matters
- ESG-related targets included in the annual bonus plan and performance share plan

HOW WE MONITOR

- Charitable donations
- Environmental performance indicators
- External ESG ratings

OUTCOMES

- Development of ESG strategy
- Informed communities
- Contribution to local businesses and employment
- Contribution to wider society
- Sustainable business operations

LINK TO STRATEGY

1 3

GOVERNING BODIES AND REGULATORS

WHY WE ENGAGE

Our businesses operate in highly regulated environments and we need to ensure that we maintain our licences to operate and continue to run our businesses in full compliance with all laws and regulations. We also need to keep ahead of planned regulatory developments which may impact our operations in future.

HOW THE BUSINESS ENGAGES

- Maintenance of a regular dialogue with contacts within governments and at our regulators
- Participation in industry working groups and trade representative bodies
- Consultation with local governing bodies on planned business developments and investments

HOW THE BOARD ENGAGES

- Board oversight of our Code of Conduct, our Operational Framework and the associated assurance processes ensures our businesses are meeting governmental and regulatory requirements
- Interaction with the US Board's Government Security Committee provides assurance to the Board that the business is operating in accordance with our Special Security Agreement

HOW WE MONITOR

- Compliance statistics
- Safety-related capital investment

OUTCOMES

- Ethical and compliant business conduct
- Trusted supplier to government customers
- Government support for proposed acquisitions
- Sustainable business operations

LINK TO STRATEGY

1 3

STRATEGY
SUSTAINABLE GROWTH

At Chemring, our **purpose** is to help make the world a safer place. Across the physical and digital environment our exceptional teams deliver innovative technologies and products that detect and defeat ever-changing threats.

Connected to our purpose, our **vision** provides a clear definition of the future state Chemring wishes to attain. It is to be a leading provider of critical and innovative technologies that detect and protect people, platforms, missions and information against constantly changing threats.

Our **strategy** sets out the priorities and actions that underpin us achieving our vision, and guides the choices that we will make as a company. We will continue to deliver profitable growth by operating in markets where we see strong customer demand signals, where we have differentiating technology and where there are significant barriers to entry. Our strategy is three-fold:

1. Target growing segments
2. Win market share
3. Grow our US business

1 TARGET GROWING SEGMENTS

Against the backdrop of a more uncertain world – including a significant kinematic conflict in Europe and greater instability in the Asia Pacific region, macro-level world defence budgets can be expected to grow. Simultaneously, our customers' strategic context will continue to evolve, and the enhanced threat context will see a strong demand for multi-domain capabilities including those in CEMA, artificial intelligence, autonomous systems and space. With a greater threat of peer-level competition, demand for energetic capabilities can be anticipated to strengthen as the traditional battlefield continues to feature, alongside the sub-threshold "Grey Zone", in customers' thinking. Countermeasures capabilities will also continue to remain relevant in this contested environment.

Our strategy is to continue to focus on growing segments of the defence and security market based on our in-depth understanding of our customers' mission requirements and modernisation priorities. Our investment in innovation and solution development will be targeted on areas where we see positive demand signals from our customers.

2 WIN MARKET SHARE

In addition to targeting threat-focused growth segments, we also aim to win market share by focusing on meeting established customer needs in an effective and competitive manner. Our largest current investment is in the Countermeasures & Energetics sector to expand capacity at our manufacturing operations in the US to respond to the continuing demand for airborne countermeasures driven by air platform sales including the F-35 Lighting II.

3 GROW OUR US BUSINESS

Our US businesses deliver over half the Group's revenue, and our businesses in both Countermeasures & Energetics and Sensors & Information are well placed on a number of critical US customer programmes including highly classified activities and substantial Programs of Record. This positioning, underpinned by our operational performance and strategic insight into US customer priorities, is the foundation upon which we will grow our business in the world's largest defence market.

STRATEGY IN ACTION

In the US, we are building on our established Programs of Record position in sensors to develop and implement a technology-led strategy for the capture of future opportunities. We are also responding to the strong demand signals that we are seeing for our precision engineered devices for use in space and missile applications, and are exploring additional opportunities to complement organic growth.

In the UK, we have a strong pipeline of both organic and inorganic growth opportunities for Roke – focused in particular on developing the businesses in its core specialist areas of AI, machine learning, data science and autonomy.

ORDER BOOK

£651m

+30%

STRATEGY IN ACTION

The investment in the US manufacturing operations for our Countermeasures & Energetics sector will improve safety through remote operations, improve quality though automation and deliver the extrusion capacity required for next-generation flare production.

Elsewhere, we are seeing strong opportunities that support significant growth for Chemring Energetic Devices. The Chicago business' precision-engineered devices being critical to achieving mission success for increasing customer activities involving space and missile assets.

ORDER INTAKE

£551m

+28%

STRATEGY IN ACTION

In Countermeasures & Energetics we continue to take a pan-Group approach to our countermeasures activities. Within the boundaries of security classifications, we share conventional, spectral and kinematic flare capabilities and processes developed in the UK and Australia with our US operations and are promoting the benefits of these capabilities to the US customer.

In Sensors & Information we have established a new sales and engineering office for Roke USA, hired staff with the requisite security clearances and delivered a number of proof-of-concept trials of our land EW products to a number of distinct US customer stakeholders.

REVENUE

£443m

+13%

KEY PERFORMANCE INDICATORS

MEASURING OUR PROGRESS

The Group's strategy is underpinned by focusing on a number of key performance indicators ("KPIs").

These KPIs enable progress to be monitored on the implementation of the Group's strategy, levels of investment, operational performance and business development. They also give an early insight into how well the principal risks and uncertainties are being managed.

Similar indicators are used to review performance by each of the Group's businesses, albeit that the exact nature of these varies between business units to reflect the differing nature of their operations.

The KPIs that the Board and senior management utilise to assess Group performance are set out below. All financial KPIs refer to continuing operations and therefore exclude businesses classified as discontinued and held for sale.

STRATEGIC PRIORITY	SAFETY		
KPI	**1** **NUMBER OF ENERGETIC EVENTS CAUSING HARM OR INJURY** Nil (2021: 2) 2022 0 2021 2	**2** **NUMBER OF NEAR MISS AND POTENTIAL HAZARD REPORTS** 4,036 (2021: 3,518) 2022 4,036 2021 3,518	**3** **TOTAL RECORDABLE INJURIES NUMBER AND FREQUENCY RATE** 17 (2021: 14) 2022 17 2021 14 RATE 0.78 (2021: 0.67) 2022 0.78 2021 0.67
DESCRIPTION	Number of energetic events causing harm or injury.	Number of near miss and potential hazards reported.	Number of recordable injuries per 200,000 man hours worked.
WHY IS IT A KPI?	A process safety event is one of the key strategic safety risks of the business. This indicator measures those events that have caused injury or harm.	This indicates employee awareness of hazards and the greater the reporting the more engaged our people are.	This is the rate for all injuries including medical treatment, restricted workday and lost time injuries. It is a more sensitive indicator of occupational safety than lost time injury frequency rates, as more minor events are captured.
2022 PERFORMANCE	There were no life changing/serious injuries associated with energetic events compared to two last year. Since 2010 the only other time this has happened was 2017.	As we journey towards our goal of zero harm we need a workforce that is fully engaged and proactive in reporting unsafe actions and conditions. One measure is the reporting of near misses, providing us with the opportunity to learn and prevent accidents from happening. It is very encouraging therefore to see we have maintained a high level of near miss reporting this year.	We had 17 employee injuries this year, compared to 14 last year. This resulted in a slight increase in our recordable injury rate, from 0.67 to 0.78, but remains below our limit of 1. There were no fatalities or serious injuries during the year.

ORDERS

4

ORDER INTAKE
GROUP

£551m

(2021: £431m)

SENSORS & INFORMATION

2022	£195m
2021	£176m

COUNTERMEASURES & ENERGETICS

2022	£356m
2021	£255m

Order intake is measured at expected sales value and represents the last 12 months' activity.

The trend of order intake gives an indication of market conditions and our competitiveness within our markets.

5

ORDER BOOK
GROUP

£651m

(2021: £501m)

SENSORS & INFORMATION

2022	£154m
2021	£114m

COUNTERMEASURES & ENERGETICS

2022	£497m
2021	£387m

Order book is measured at expected sales value and indicates future potential.

The level of order book, in particular for delivery in the next year, gives a degree of confidence in expected future financial performance.

Order intake across the Group has increased by 28% to £551m (2021: £431m) This was driven by Roke seeing order intake increase by 59% as customers increasingly place multi-year contracts for Roke's services and products, the receipt of a US$16m delivery order for the second year of EMBD full rate production and strong order intake across the Countermeasures & Energetics sector where customers are increasingly placing multi-year orders. This was offset by orders on the HMDS PoR being significantly lower than in the previous year.

The order book was up 30% to £651m (2021: £501m), with £403m currently due as revenue in FY23, approximately 86% coverage of FY23 targeted revenue.

REVENUE

6

REVENUE
GROUP

£443m

(2021: £393m)

SENSORS & INFORMATION

2022	£162m
2021	£147m

COUNTERMEASURES & ENERGETICS

2022	£281m
2021	£246m

Revenue is measured at sales value less any applicable sales taxes.

The trend of revenue gives an indication of both the state of the end market and our business's ability to execute orders on time to satisfy customer needs.

Group revenue was in line with our expectations, with strong performance at Roke, steady growth in Countermeasures & Energetics and a foreign currency tailwind.

A CLEAR INSIGHT INTO OPERATIONAL AND FINANCIAL PROGRESS

STRATEGIC PRIORITY	UNDERLYING OPERATING PROFIT AND MARGIN		UNDERLYING EARNINGS PER SHARE
KPI	7 **UNDERLYING OPERATING PROFIT** GROUP £64.0m (2021: £57.5m) **SENSORS & INFORMATION** 2022 £30.0m 2021 £31.6m **COUNTERMEASURES & ENERGETICS** 2022 £48.9m 2021 £40.0m	**UNDERLYING OPERATING MARGIN** GROUP 14.5% (2021: 14.6%) **SENSORS & INFORMATION** 2022 18.5% 2021 21.6% **COUNTERMEASURES & ENERGETICS** 2022 17.4% 2021 16.2%	8 **UNDERLYING EARNINGS PER SHARE** 20.2p (2021: 16.9p) 2022 20.2p 2021 16.9p **CHANGE FROM PREVIOUS YEAR** up 20% (2021: up 12%) 2022 20% 2021 12%
DESCRIPTION	Underlying operating profit excludes non-underlying items that, by their size or nature, need to be separately disclosed to properly understand the Group's underlying quality of earnings. Underlying operating margin is calculated as underlying operating profit divided by revenue.		Calculated as underlying earnings after tax divided by the number of shares in issue.
WHY IS IT A KPI?	Underlying operating profit provides a consistent year-on-year measure of the trading performance of the Group's operations. A focus on operating margin allows the impact of changes in revenue and cost base to be monitored, enabling comparisons to be made of management performance and trading effectiveness.		The measurement of underlying EPS reflects all aspects of the Group's income statement including the management of interest and tax.
2022 PERFORMANCE	The underlying operating profit increased by 11% during the year. The changes in margin of each sector reflect the market conditions, volume changes and performance improvement actions, as set out in this strategic report.		Underlying EPS increased by 20% in 2022, driven by increased underlying operating profit and lower interest and taxation costs.

WORKING CAPITAL AND INVENTORY

9 WORKING CAPITAL
GROUP

£93.9m

(2021: £84.4m)

SENSORS & INFORMATION

2022	£30.6m
2021	£38.3m

COUNTERMEASURES & ENERGETICS

2022	£63.3m
2021	£46.1m

Working capital is defined as inventories, trade and other receivables, less trade and other payables excluding payroll related and other liabilities totalling £31.4m (2021: £28.8m).

Efficiently turning profit into cash demands a degree of control over working capital.

Working capital as a percentage of revenue was consistent at 21% year-on-year, demonstrating the continued effective management of working capital.

10 INVENTORY
GROUP

£99.6m

(2021: £80.7m)

SENSORS & INFORMATION

2022	£27.1m
2021	£19.8m

COUNTERMEASURES & ENERGETICS

2022	£72.5m
2021	£60.9m

Inventory is measured at cost.

The primary focus for improvement in working capital is inventory.

Inventory increased, as did advance payments from customers, reflecting the timing of customer procurement in Countermeasures & Energetics.

NET DEBT AND CASH FLOW

11 NET DEBT: UNDERLYING EBITDA

0.09x

(2021: 0.35x)

2022	0.09x
2021	0.35x

Measured as net debt divided by underlying EBITDA for the previous 12 months.

This is a measure of leverage within the business and is a banking covenant.

This has decreased in 2022, as underlying EBITDA has increased and net debt has decreased.

12 UNDERLYING OPERATING CASH FLOW

£90.1m

(2021: £80.0m)

2022	£90.1m
2021	£80.0m

CONVERSION OF UNDERLYING EBITDA INTO UNDERLYING OPERATING CASH

109%

(2021: 105%)

2022	109%
2021	105%

Cash flow from operating activities before tax outflows, non-underlying items and pension payments.

This is a key measure to ensure profit turns into cash in short order.

Operating cash conversion again exceeded 100% as our focus on the effective management of working capital was maintained.

FOCUS ON

SENSORS & INFORMATION

KEY FACTS

REVENUE

£162.3m

(2021: £146.6m)

UNDERLYING OPERATING PROFIT

£30.0m

(2021: £31.6m)

ORDER BOOK

£154m

(2021: £114m)

UNDERLYING OPERATING MARGIN

18.5%

(2021: 21.6%)

STATUTORY OPERATING PROFIT

£26.3m

(2021: £25.9m)

DISCOVER MORE ABOUT SENSORS & INFORMATION: CHEMRING.COM/WHAT-WE-DO/SENSORS-AND-INFORMATION

In Chemring's Sensors & Information sector we are a leading supplier of consulting and technology services, trusted by government and industrial partners worldwide to solve the most technically challenging defence and security-critical issues.

Our products include core technologies for detecting, intercepting and jamming electronic communications, and world-leading systems for detecting improvised explosive devices ("IEDs"), chemical and biological agents.

Operating across defence, national security, law enforcement and commercial domains the Sensors & Information sector is constantly innovating to enable customers to deliver competitive advantage and to defend their people, assets and information.

STRATEGY

The Sensors & Information sector remains Chemring's principal area of focus for long-term growth, reflecting customer demand and opportunities in this area. We continue to focus on expanding the Group's product, service and capability offerings in the areas of tactical electronic warfare, artificial intelligence, machine learning and information security. We are also focused on building a technology-based strategy for growth beyond current US Department of Defense ("US DoD") Programs of Record in the areas of explosive hazard detection and chemical and biological threat detection.

The Group's specialist consulting and technology services business, Roke, operates in the growing Cyber market. Investing in retaining, developing and recruiting people, together with expanding our geographical and customer coverage, is key to long-term profitable growth in this area. We continue to actively explore opportunities to expand and accelerate Roke's capabilities and offerings to drive medium and long-term growth including leveraging opportunities in adjacent markets and territories. In the short term this will require continued operating expense investment in Roke Academy, Roke Futures and Roke USA.

The integration of Cubica Group, acquired in 2021, has progressed extremely well and has brought significant additional research and development expertise as we invest in next-generation technologies and expand our product, service and capability offerings. We continue to actively explore opportunities and have a healthy pipeline of further potential acquisition targets.

MARKETS

The current geopolitical uncertainty, brought about by both Russia's invasion of Ukraine and increased competition with China, has highlighted the need for increased defence expenditure, particularly amongst European members of NATO. More broadly it has highlighted the need for countries to re-equip and modernise their defence capabilities to meet the threat of peer on peer conflict. Partnerships and alliances, such as Five Eyes, AUKUS, and NATO, are seen as becoming increasingly important, with greater co-operation and alignment between allies to the fore.

The US continues to be the largest defence and security market in the world and remains opportunity-rich for the Sensors & Information sector. The US$813bn FY23 President's Budget Request for the US DoD is the largest ever and has a strong modernisation agenda including investment priorities for cyber, electronic warfare and chem/bio security. Chemring's capabilities should give us the opportunity to address many of these requirements. The shift in the US Government priorities from counter-insurgency operations to equipping forces for the expected peer to peer/near-peer competition in the Pacific, has resulted in a swift and unexpected re-prioritisation of US DoD budgets. This impacted our expected HMDS FY22 delivery order, which was not funded, and we are currently working with the customer to appropriately plan for their expected future requirements which we anticipate will be at lower volumes.

In the UK, the fundamentals of our market position are underpinned by the 2021 Integrated Review of Defence, Security and Foreign Policy ("IR") and the subsequent raft of policy papers that were published in support. The IR took a comprehensive view of the peer-level threats to British interests so its wholescale refresh is unlikely despite the Russia-Ukraine crisis. The increased importance that the UK is placing on cyber-security, active cyber effects, information advantage, intelligent networks, artificial intelligence, machine learning, and multi-domain integration, when matched with increasing budgets, is expected to accelerate the demand for Roke's market-leading technologies.

In both these home markets, the need to keep pace with rapidly evolving and complex threats aligns well with our Sensors & Information strategy. The clear emphasis placed on cyber, artificial intelligence, data science, EW and unmanned/autonomous systems should increase the opportunity space for Chemring to deploy its market-leading technologies in these areas of growing requirement.

PERFORMANCE

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

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

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

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

OUR PURPOSE IN ACTION

EUROPEAN ELECTRONIC WARFARE ("EW") REQUIREMENTS

Roke continues to support key European partners with respect to high performance, networked electronic surveillance capabilities capable of delivering "find & fix" capabilities against a peer-to-peer threat.

Our RESOLVE 3 systems provide a mobile, multi-role system that supports different deployment stances, and Roke has seen initial orders and significant interest in the latest PERCEIVE mobile electronic surveillance system.

Our PREFIX/VIPER software suite provides pre, during and post mission analysis tools and centralised command and control of the electromagnetic environment. This is drawing interest from Defence customer's agnostic of hardware which demonstrates the functionality and ease of use of this Roke-designed mission toolset.

Roke continues to undertake collaborative development of these platforms to address the evolving threat and emergent operational requirements.

LINK TO STRATEGY 1 3

LINK TO OUR VALUES
INNOVATION

Read more on page 19

PERFORMANCE continued

The acquisition of Geollect Limited was completed in December 2022 having now received NSIA approval, creates further opportunities for Chemring to enhance and further accelerate growth in its Roke business. Geollect, based in Bristol and Virginia USA, is a data analytics company specialising in geospatial intelligence ("GEOINT"), one of the most exciting and growing areas of spacetech innovation. GEOINT uses imagery analysis and data to survey and assess human activity and physical geography anywhere in the world and has the potential to transform some of the most traditional and complex industries. With demand for open source intelligence ("OSINT") and commercially curated intelligence growing at 25% CAGR, Roke's customers require an exponential increase in capability to achieve digital advantage against complex threats. The acquisition will enable Roke to build on its Intelligence as a Service ("Roke IaaS") proposition by utilising the intelligence gathering and analysis capabilities of Geollect, and enhancing their already impressive processing capabilities with Roke's innovative approach to AI, machine learning and data science. Roke's unique customer relationships in National Security and Defence will provide a growth accelerator while providing new markets for Roke's Futures business.

In the last four years successful execution of its strategy has seen Roke double in size. Its headcount increased from c.400 at the end of 2018 to over 800 today, driven in part by the success of its graduate and apprenticeship schemes. Having seen an intake of 44 recruits in the Autumn of 2021, Roke has this year grown that number to 71 – consisting of 55 graduates and 16 engineering apprentices.

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

Roke continues to invest in high value, cutting-edge technology that is directly relevant to the rapidly emerging needs of its markets. Roke's Technology Roadmap focuses on the delivery of autonomous, intelligent and integrated capabilities. Historically, Roke has provided ground-breaking technologies in areas ranging from Electronic Warfare to Precision Navigation and Timing, Acoustic Sensing and Cyber. Our vision is to enable the integration of all Roke's capabilities in an open architecture that enables autonomous tasking of sensors and effectors. For example, our Omniscient software provides the autonomous fabric integrating our capabilities together such that an alert triggered by an EW sensor results in the autonomous tasking of an unmanned vehicle to locate and classify the source using AI based classifiers. Our focus is on delivering this level of autonomy at massive scale and we are investing significantly to ensure our thought leadership proactively drives the market.

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

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

We are seeing growing customer enquiries for Roke's suite of world-leading Electronic Warfare products. The business received an £8m order in November 2021 from the Swedish Ministry of Defence for the supply of EW equipment of which part was delivered in H2 2022. This illustrates 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.

Roke USA continues to support the customer with a view to securing further EW orders from this potentially significant market. We continue to invest in establishing our Roke USA business and have now established a sales and engineering office in the US, and hired staff with the required security clearance. This has required investment of £1.4m in 2022 which has been c.1 percentage point margin dilutive in the Sensors & Information sector.

OUR PURPOSE IN ACTION

GROWING OUR OWN – EARLY CAREERS AT ROKE

In the ever increasing war for talent and alongside ambitious growth plans, Roke recognises the importance of bringing in individuals early in their careers to develop alongside the existing experienced population of Roke experts.

Such was the success of the 2021 intake that the business aimed higher for the September 2022 cohort, forecasting for 55 graduates and 16 apprentices. Planning for this cohort began at an early stage as it would equate to more than 10% of the overall business headcount.

The final preparation for the 2022 intake focused on the programme itself. Some core principles were applied:

- streamlining the learning experience to meet the needs of the early career intake through groupings based on their academic background and future roles;
- maximising classroom time with Roke engineers to make the most of unique Roke experience and knowledge by using a partner to deliver introduction or industry standard learning; and
- building in problem solving to provide challenge and collaboration.

This investment has allowed us to support ongoing customer demonstrations and field trials. Customer feedback remains very positive albeit anticipated follow-on orders have been delayed as a result of budget restrictions caused by the Continuing Resolution.

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

Chemring's experience and expertise in fielding biological agent detectors for its US DoD customers, covered below, provides a strong platform from which to pursue opportunities in existing and adjacent markets, such as homeland security. Chemring continues to invest in its Mobius R&D project, which aims to develop a deployable and cost-effective solution for the identification of biological threats.

Chemring is also working with the US Department of Homeland Security Countering Weapons of Mass Destruction ("CWMD") Office to design, develop and deliver an aerosol bio-sensor that can detect, classify and provide presumptive identification in real time of pathogenic bio-threats in both indoor and outdoor environments. Chemring's technology dramatically shortens the time taken to identify the bio-threat, which is critical to rapidly implementing an effective response. Chemring's product is also considerably less expensive to procure and operate than current equipment, thus allowing the customer to afford greater unit coverage while remaining within their budget.

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

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

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

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

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

OPPORTUNITIES AND OUTLOOK

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

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

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

Over the next two years we will see the US sensors business transition from its primary focus being on the delivery of explosive hazard detection systems to one of biological detection, reflecting the shift in the US Government priorities from counter-insurgency operations to equipping forces for peer to peer/near-peer competition in the Pacific. In biological detection the EMBD program provides good short-term visibility and following the expected LRIP decision on JBTDS in 2023 we expect this program to enhance medium-term visibility but first full rate production revenue is not expected until 2025. In chemical detection we still await the outcome of the competitive AVCAD program.

The order book for Sensors & Information at 31 October 2022 was £154m (2021: £114m) driven by strong order intake and an increase in multi-year contracts in Roke, offset by the reduction in HMDS orders in our US sensors business. Of this, £112m is expected to be delivered in 2023, providing 67% cover of expected 2023 revenue. 2023 trading performance for Sensors & Information is expected to show a continuation of the levels of business seen in 2022, with continued growing demand for Roke's products and services, offset by the expected reduction in HMDS-related revenue. Medium-term growth opportunities are driven by the Group's sole source positions on the biological detection Programs of Record moving into full rate production.

FOCUS ON continued

COUNTERMEASURES & ENERGETICS

KEY FACTS

REVENUE

£280.5m

(2021: £246.7m)

UNDERLYING OPERATING PROFIT

£48.9m

(2021: £40.0m)

ORDER BOOK

£497m

(2021: £387m)

UNDERLYING OPERATING MARGIN

17.4%

(2021: 16.2%)

STATUTORY OPERATING PROFIT

£46.8m

(2021: £37.9m)

DISCOVER MORE ABOUT COUNTERMEASURES & ENERGETICS: CHEMRING.COM/WHAT-WE-DO/COUNTERMEASURES-AND-ENERGETICS

In our Countermeasures & Energetics sector, we have deep technical expertise in high-hazard precision engineering and manufacturing.

Chemring is the world leader in the design, development and manufacture of advanced expendable countermeasures and countermeasures suites for protecting air and sea platforms against the growing threat of guided missiles.

Our niche, world-class energetics portfolio provides high-reliability, single-use devices that perform critical functions for the space, aerospace, defence and industrial markets including satellite deployment, aircrew egress and aircraft safety systems.

During the course of 2022 the Countermeasures & Energetics sector has seen a continued improvement in operating margin, as the benefit of capital investment has delivered improved operational tempo and efficiency.

STRATEGY

The Countermeasures & Energetics sector strategy continues to be one of strengthening and protecting our niche, world-leading positions through continuously improving our technological and operational base, whilst working closely with our customers in the development of new solutions to meet emerging needs. Investment in the sector will principally be directed towards safety, automation and the enhancement of current facilities including capacity and capabilities. We also see great opportunity through partnering with our customer base on future technological developments.

Protection solutions against conventional threats in the traditional domains of air, sea and land remain vital, and are important areas for the Group to maintain technology leadership.

Our countermeasures businesses continue to adopt a holistic approach to their activities, sharing intelligence, products and processes, and promoting the benefits of these capabilities to our international customers. This includes the development of multi-shot countermeasures that combine multiple payloads in one flare body to deliver enhanced aircraft protection.

Our strategy for our energetics businesses remains to focus on the high value differentiated areas of the market where market demand is most robust. Our Chicago facility is well placed to benefit from growth in the space segment.

The investment in the US manufacturing operations for our Countermeasures & Energetics sector will improve safety through remote operations, improve quality though automation and deliver extrusion capacity required for next-generation flare production. Elsewhere, we continue with our programme of significant investment in safety and automation as part of creating a robust group of high-performing manufacturing facilities.

MARKETS

Russia's invasion of Ukraine is likely to have a long-term catalytic effect on defence and security spend as countries look to deter aggression and protect their international interests. Given the threat environment, several European countries (NATO and non-NATO members) have already committed to increasing their defence spend with a large proportion of funds allocated towards capital investment. In the medium to long term Chemring has the opportunity to benefit as demand for the Group's capabilities is expected to increase.

In the Countermeasures & Energetics sector the need for our niche capabilities will continue to remain relevant in the contested environment that militaries operate in, so long-term demand and associated funding are expected to remain robust.

Whilst there is a general trend in defence spending towards modernisation and new technologies, Chemring continues to maintain a market-leading position in the addressable air countermeasures market. Demand in the countermeasures sector over the next five years is primarily being driven by US and international requirements, coupled with new technologies being developed in the UK that will be shared across the Group's businesses.

Sole source positions on several products and platforms in conjunction with high barriers to entry are evident in the strong current order book. Three additional countries, Canada, Finland and Germany, have announced their intent to acquire the F-35 stealth multi-role combat aircraft, a franchise US defence programme. This aircraft remains a driver of growth in the sector with US demand still expected to be in excess of 2,400 aircraft, and the UK has maintained its commitment to expand its number of F-35 beyond the 48 already ordered. As a provider of countermeasures for this platform, these programmes will contribute to us maintaining our market-leading position in the addressable air countermeasures market.

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

Alongside improving continuity of supply and providing the UK MOD with the highest level of air platform protection to counter threats, this SPA will underpin the development of the next generation of countermeasures. As with other EW-related technology fields, the countermeasures sector must keep pace with the ever-evolving missile capabilities, anticipating where and how threat systems can be countered. The SPA will also aid information sharing to facilitate a collaborative approach and encouraging co-operation such that the right level of capability is available to the front line at the right time. Where appropriate, it will also allow CCM UK to make such decoy technology available to a wide range of allies and partner nations, increasing survivability of aircraft and aircrew.

In the specialist energetic devices and materials businesses our focus remains on the high value niche areas of the market where market conditions continue to strengthen as a consequence of increased global tension. Demand for our range of energetic devices, propellants and explosive products continues to grow year-on-year. Increasingly, customers are signing long-term contracts in order to secure supply and this improved visibility is enabling greater focus on our investment into manufacturing capacity, efficiency and product R&D.

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

PERFORMANCE

Order intake in the year was higher at £356m (2021: £255m), driven by multi-year orders received across the sector.

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

OUR PURPOSE IN ACTION

STRATEGIC PARTNERING ARRANGEMENT ("SPA") WITH THE ROYAL AIR FORCE, DEFENCE EQUIPMENT & SUPPORT AND THE DEFENCE SCIENCE AND TECHNOLOGY LABORATORY ("DSTL")

Chemring Countermeasures UK ("CCM UK") announced the signing of a Strategic Partnering Arrangement ("SPA") with the Royal Air Force, Defence Equipment & Support and the Defence Science and Technology Laboratory ("DSTL") earlier this year.

The SPA ensures the long-term provision of optimum air platform protection, including exploiting current capabilities and developing new technology.

CCM UK provides a wide range of countermeasure decoys that are used extensively by the UK's armed forces. They routinely collaborate with the UK MOD to improve the level of protection achieved and ensure countermeasures keep pace with ever-evolving missile capabilities.

The ten-year SPA will underpin the development of the next generation of countermeasures. It will also allow CCM UK to make such decoy technology available to a wide range of allies and partner nations, helping save the lives of more aircrew.

LINK TO STRATEGY 1

LINK TO OUR VALUES

Read more on page 19

INNOVATION

PERFORMANCE continued

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

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

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

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

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

The statutory operating profit for the year was £46.8m (2021: £37.9m).

OPPORTUNITIES AND OUTLOOK

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

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

The Group's niche propellant and devices businesses in Scotland and Chicago are increasingly securing long-term contracts with customers, supporting greater short and medium-term visibility and providing a framework for long-term planning and investment decisions. Our Chicago facility is well placed to benefit from growth in the space segment. Similarly, demand for high quality energetic materials has enabled Chemring Nobel in Norway to work proactively with its customer base on long-term contracting models, providing much improved visibility.

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

OUR PURPOSE IN ACTION

CHEMRING SUPPORTS THE LAUNCH OF BOEING CST-100 STARLINER

On 19 May 2022, Boeing launched its passenger spacecraft, CST-100 Starliner, to the International Space Station ("ISS"). Starliner is part of NASA's Commercial Crew Program, an initiative tasked with developing spacecraft capable of taking NASA astronauts to and from the ISS. Starliner took off on a United Launch Alliance Atlas V launch vehicle at 6:54PM ET out of Cape Canaveral Air Force Station in Florida and docked with the ISS on 20 May at 7:10PM ET.

The Orbital Flight Test (OFT-2) mission was a dress rehearsal for future manned missions and Chemring was one of the teams that supported this test flight. Chemring provided various mission-critical components on the Atlas V, as well as components for the landing sequence for Starliner's return home.

The safe return of the Starliner spacecraft helps to prove the system is ready to fly astronauts. After NASA and Boeing review processes data from this test flight, teams will continue plans for Starliner and its next mission, the Crew Flight Test to the space station.

INTRODUCTION TO SUSTAINABILITY

COMMITTED TO A SUSTAINABLE FUTURE

Michael Ord
Group Chief Executive and Chairman of the Group Sustainability Committee

"Chemring acknowledges its responsibilities to contribute to a sustainable future. We have a strong and recognised obligation to ensure the responsible operation of our business and are fully committed to long-term sustainable value creation through safe, values-based and ethical business conduct at all times."

PURPOSE

Chemring helps make the world a safer place. Across physical and digital environments, our exceptional teams deliver innovative technologies and products that detect and defeat ever-changing threats.

VISION

To be a leading provider of critical and innovative technologies that detect and protect people, platforms, missions and information against constantly-changing threats.

Improving our sustainability performance plays a key role in the way we both run our businesses today and plan for the future, as we manage our ESG-related risks. We also recognise that our ESG credentials are an increasingly important factor in our ability to attract and retain first-class people. Engaged, motivated, empowered and appropriately-skilled employees are integral to our success.

Whilst our approach to sustainability continues to mature we are committed to implementing transparent policies and procedures, and to fostering an inclusive culture across the Group where everyone does the right thing and takes responsibility for their actions. Increasingly this focus will develop from working as a trusted partner to our many customers and ensuring that our internal standards are fit for purpose, to working with our supply chain to ensure that they too work to the same standards. In doing so we will build a sustainable company of which all our stakeholders can be proud, now and in the future.

OUR APPROACH TO SUSTAINABILITY

The long-term success of the Chemring business can only be enhanced by a positive interaction with all of our stakeholders and therefore a positive and engaged approach to corporate responsibility and sustainability is important to us. Our approach is focused around the following key areas:

- health and safety;
- environment;
- people; and
- ethics and business conduct.

Our approach to corporate responsibility and sustainability is embedded within the business units and all senior leaders have specific objectives around these areas identified which are linked to their incentive plans.

PROGRESS IN 2022

Chemring's purpose is to help make the world a safer place and Russia's invasion of Ukraine has tragically highlighted the critical role that the defence and security industry plays in preserving peace, democracy and freedom in the western world. It has reinforced the argument that for sustainability to thrive, it requires global stability at its foundations. We are proud of the role that Chemring plays in providing that stability and are equally focused on ensuring that we manage and progress our own sustainability agenda, and in particular our ESG-related risks.

It has been another busy year in which we have built on the good progress made during FY21.

ESG forms part of our everyday thinking, from how we run our businesses from day to day, to long-term strategic planning. Climate-related issues, such as emissions, are now part of every monthly Board report and ESG is a scheduled Board agenda item every six months. It is also a standing agenda item for every meeting of the Group's Executive Committee and forms part of the monthly reporting cycle of each of our business units.

Across the Group we continue to actively seek ways to reduce our impact on the environment and build resilience to climate change by focusing on energy, waste and water, and understanding the impact of global climate change on our operations. These four focus areas have been identified based on an overall evaluation of environmental impacts and risks, with a focus on impacts that we can influence and have consequently influenced financial planning. We are setting Group milestones, focusing on energy usage to drive further improvements in this area. Our strategy is to reduce our global GHG emissions through improving energy efficiency to reduce consumption and by purchasing electricity from renewable sources.

Many of our Chemring businesses have environmental management systems and have undertaken local initiatives and programmes to reduce environmental impacts. To improve energy efficiency for example, improvements have been made to operations through the installation of new energy efficient buildings to replace old buildings, upgrading heating, ventilation and air conditioning ("HVAC") systems and improving lighting. In 2022 we improved the steam heat distribution system at our Scotland facility by replacing valves, installing new steam traps and improving insulation. This has contributed to significant reductions in natural gas usage and greenhouse gas emissions. In addition, we replaced ageing HVAC systems at our Pennsylvania facility, reducing electricity use and associated scope 2 emissions. We have also increased our use of biodiesel fuels.

In 2021 we committed to becoming carbon neutral for market-based scope 1 and 2 emissions by 2030 and working to be a net zero organisation by 2050. Against those longer-term targets we set the near-term target of reducing scope 1 and 2 GHG emissions year-on-year, with this being linked into remuneration and rewards across all our senior teams. In 2022 we have made good progress, reducing our overall emissions by 7.3%.

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

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

OUR PURPOSE IN ACTION

STORAGE FACILITY UPGRADE AT CHEMRING NOBEL

Chemring Nobel (CHN) is further improving its sustainability credentials by investing in a new storage tank facility. The new facility will meet future government directives and environmental, health and security compliance. The tank facility will increase the storage capacity of essential raw materials helping CHN guarantee supply to customers, and better protect the surrounding environment from leaks or emissions.

CHN produces and delivers specialist chemicals to customers for use in a range of performance and manufacturing applications. During the production of RDX and HMX, acetic acid is made and recovered. This is an important part of the process, as the acetic acid is sold to customers, as well as being used as an ingredient in the production of other chemicals.

The team recovers the acetic acid through several steps of evaporation and distillation, resulting in pure acetic acid at the end of the process. The acid recovery area at the CHN facility originally had 19 storage tanks, in which the acid was kept ready for sale or use. These storage tanks needed an upgrade and expansion.

The old storage tank area was built in 1968 and expanded in 1985. In January 2021, the CHN team started a two-year project to establish a new storage tank capacity.

This £6m investment will increase the amount of acetic acid that can be stored and bring the tanks in line with new compliance directives. It will also help to avoid production downtime during the life of the project and allow the team to consider and implement new technology and further improvements to the recovery and storage area.

CHN buys in the chemical compound acetic acid anhydride, which is then converted into acetic acid in the production of RDX/HMX. This project will double the storage capacity of both the incoming acetic acid anhydride and the outgoing acetic acid. This will secure production, especially during the winter when shipment to and from Europe can be challenging.

The project, which is due for completion in 2023, also has the following benefits:

- More automated operations (health and safety benefits).
- A new system for fire detection and firefighting via a foam system (health and safety and risk prevention/management benefits).
- A system to purify emissions to air (environmental benefits).
- Safe operations for loading and unloading trucks (health and safety benefits).
- New retaining walls or "bunding" around the storage facility to better protect the surrounding environment (environmental and health and safety benefits).

PROGRESS IN 2022 CONTINUED

FY22 sees the Group report for the first time under the Task Force on Climate-related Financial Disclosures ("TCFD"), the details of which can be found on pages 45 to 49 of this report. In addition, the Group progressed its commitment to further improve its non-mandatory disclosure by completing its first CDP submission (formerly the Carbon Disclosure Project) at the end of July 2022. By translating the TCFD recommendations and pillars into actual disclosure questions and a standardised annual format, CDP provides investors and disclosers with a unique platform where the TCFD Framework can be brought into real-world practice in a comparable and consistent way.

In addition to our environmental activity, this year has seen us progress our activities around DE&I and employee wellbeing.

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

The Board has played an active role in supporting our DE&I activity with Board members taking part in various employee round-table discussions and networking events. Laurie Bowen, as the non-executive director with responsibility for employee engagement on behalf of the Board and as Chair of the Remuneration Committee, met with groups of colleagues from different business areas and at different levels in the organisation. Laurie was able to hear directly from these groups their views on working at Chemring, as well as being able to share with them the work of the Board. These groups included colleagues at all levels from operators to the senior leadership teams at Chemring Energetic Devices, as well as at Chemring Countermeasures USA's facility in Tennessee. The groups Laurie met were overwhelmingly positive about their experiences of working at Chemring and pointed to many examples of support from the Group. Laurie also gathered input as to how we can continue to develop, and colleagues provided clear and constructive input on areas such as enhancing cross-business collaboration which are being acted on.

Our ESG strategy over the current and future years will seek to identify those areas where our activities can have most impact. Plans are now in place to continue this journey and to ensure that we meet the growing disclosure requirements of our stakeholders and demonstrate our ability to successfully address ESG-related issues.

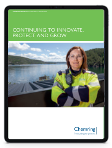
We will also continue to work with our advisers and shareholders to identify how we can constructively feed into and inform the debate on the future of ESG reporting and the creation of a common set of standards against which we can be measured. Chemring is now a business whose evolving purpose is innovating to protect, and with that we are focused on protecting our customers, people, platforms, missions and information. Less than 10% of our revenue relates to the provision of raw material and components that may be used by our customers in the production of offensive capabilities. This will reduce further as the focus areas of the Group continue to grow.

As a business we remain fully committed to building a sustainable company of which all our stakeholders can be proud, both now and in the future.

OUR SUSTAINABILITY GOALS

	UN SDG	Sustainability objectives	Supportive actions and activity	Further information
ENVIRONMENTAL Respecting and protecting our planet by actively seeking ways to reduce our environmental impact.	7 AFFORDABLE AND CLEAN ENERGY 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 13 CLIMATE ACTION	- Reduce our impact on the environment and build resilience to climate change by focusing on energy, waste and water, and by understanding the impact of global climate change on our operations - Challenge our business unit leaders to improve operational, resource and energy efficiency and to minimise environmental impact - Invest in support of product development and production techniques that meet our customers' needs and support their environmental goals	- Chemring will be carbon neutral by 2030 - Chemring is working towards being a net zero organisation by 2050 and is committed to supporting its value chain - We will reduce our total direct (scope 1) and indirect (scope 2) GHG emissions year-on-year - We will continue to focus our efforts on reducing energy consumption and on embracing green technology - We will target zero waste to landfill by 2030	**Environment on pages 42 to 49**
SOCIAL The safety, wellbeing and development of our people is at the heart of our business.	3 GOOD HEALTH AND WELL-BEING 5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH	- Maintain the highest standards of safety and the wellbeing of our workforce - Ensure that, in support of our wider commitment to ethnic and gender diversity, our workforce represents the diversity of the local communities we operate in - Implement effective policies and procedures and continually invest in support of operational excellence and the development of our people - Promote inclusion and diversity at all levels - Promote fair employment and skills development	- We will set a total recordable injury frequency rate limit of below 1 in line with upper quartile benchmark performance - We will continue to reduce the risk of high-hazard events - We will increase the proportion of women in all senior management positions across the business to 33% by 2027	**Health and safety on pages 40 to 41** **Our people on pages 50 to 56**
GOVERNANCE Conducting business in an ethical and responsible manner at all times.	5 GENDER EQUALITY 16 PEACE, JUSTICE AND STRONG INSTITUTIONS	- Operate with integrity and transparency and to the highest ethical standards across all our businesses - Ensure the highest standards of product safety and comply with all relevant standards - Promote a culture where everyone does the right thing and takes personal responsibility for their actions - Actively seek to increase representation of ethnicity and gender on our Board, within our leadership teams and across all our localities - Protect information security and data privacy - Maintain prudent and responsible financial and tax planning and management	- Chemring will target 40% female representation on the Board - We will seek to meet the guidelines of the Parker Review on ethnic diversity as we refresh the composition of the Board - All Chemring employees and third parties acting on our behalf must comply with the Chemring Code of Conduct, wherever they are located in the world	**Ethics and business conduct on pages 57 to 58**

Goal	Aim	Goal	Aim
3 GOOD HEALTH AND WELL-BEING	Ensure healthy lives and promote wellbeing for all at all ages	10 REDUCED INEQUALITIES	Reduce inequality within and among countries
5 GENDER EQUALITY	Achieve gender equality and empower all women and girls	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Ensure sustainable consumption and production patterns
7 AFFORDABLE AND CLEAN ENERGY	Ensure access to affordable, reliable, sustainable and modern energy for all	13 CLIMATE ACTION	Take urgent action to combat climate change and its impacts
8 DECENT WORK AND ECONOMIC GROWTH	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels



READ MORE IN OUR SUSTAINABILITY REPORT: CHEMRING.COM/ SUSTAINABILITY

HEALTH AND SAFETY

ESTABLISHING A STRONG HEALTH AND SAFETY CULTURE

Our goal is zero harm, not as a statistical target but as a moral imperative, which will be achieved by establishing a strong proactive safety culture.

POLICIES AND PRACTICES

The Board recognises that the highest levels of safety are required in order to protect employees, product users and the general public. The Board believes that all incidents and injuries are preventable, and that all employees have the right to expect to return home safely at the end of every working day. The Group Chief Executive has overall responsibility for health, safety and environmental ("HSE") matters across the Group.

The Group HSE Director reports directly to the Group Chief Executive and is responsible for the ongoing development and assurance of the Group's health, safety and environment strategy, known as our Journey to Zero Harm. The Group HSE Director is a member of the Executive Committee and reports on the performance of all businesses against agreed limits and objectives. The Group Chief Executive reports monthly to the Board on all key HSE KPIs.

The Board requires that all businesses systematically manage their health and safety hazards, set objectives and monitor progress by regular measurement, audit and review. Each managing director is responsible for the implementation, management and ongoing compliance of health and safety within their business, and for providing adequate resources to satisfy the Board's requirements. All managing directors have health, safety and environmental related objectives incorporated within their annual incentive plan.

Managers and supervisors in the Group's businesses are required to ensure compliance with procedures, and to provide leadership and commitment to promote and embrace a proactive health and safety culture. The Board emphasises the importance of individual responsibility for health and safety at all levels of the organisation, and expects employees to report all hazards, to be involved in implementing solutions and to adhere to rules and procedures.

A key element in the continuous improvement of health and safety management is collaboration at all levels resulting in the sharing of best practice and lessons learnt from incidents across the Group's businesses and the wider industry. Accidents, incidents and near misses are investigated, with actions generated to prevent recurrence.

"The Board believes that all incidents and injuries are preventable, and that all employees have the right to expect to return home safely at the end of every working day."

ACHIEVEMENTS

2022 has continued to be a challenging year as we maintained a safe CV-19 environment despite the pandemic. As a result of the restrictions associated with CV-19, the Management of Change Process was used effectively to ensure safe and continued operations aligned with in-country requirements. Whilst this created a need for continued focus, we have been able to progress our HSE strategy – Journey to Zero Harm, further consolidating the processes implemented last year:

- control of major accident hazards;
- injury reduction; and
- HSE risk management.

Actions taken in delivering the HSE plan included:

- continued roll-out of the asset integrity management system;
- design and implementation of the electrostatic discharge protocols; and
- deployment of the Spot it, Stop it, Share it campaign.

CONTROL OF MAJOR ACCIDENT HAZARDS

Our Countermeasures & Energetics businesses are required to manage major accident hazards which are governed by stringent legislation within their respective operating countries. Over the last three years, we have implemented a number of processes to enhance our focus in this area by ensuring we design, maintain and operate with integrity. We continue to invest in modern processes and technology to remove our employees from exposure to energetic hazards. During the design of these processes we have placed more scrutiny on the application of process hazard analysis.

In 2019 we mandated that all Countermeasures & Energetics businesses would need to conduct regular reviews to identify the potential for major process safety events. The reviews are based on a "stress test" that addresses the following questions:

- Have potential major accident hazards been identified?
- Are there effective controls in place to prevent and contain a major event?
- Are these controls being actively monitored?

This year saw the fourth iteration of that review process, with an increase in the number of hazard scenarios being identified as the rigour of process hazard analysis matured. As a result of this maturing process, we continue to develop an understanding of our residual risks and throughout the year have taken further steps to reduce these to a level as low as is reasonably practicable. To help reduce our residual risks the implementation of a common computerised maintenance management system has begun across selected businesses, improving management and accountability for safety critical assets.

Towards the end of last year, we established the Technical Safety Committee with the purpose of sharing best practices and advice on the development of new standards and guidance. This year the Committee has become more established, providing the focal point for the delivery of the electrostatic discharge protocols and oversight regarding the asset integrity management system deployment.

INJURY PREVENTION

Injury prevention focuses on the reduction of injuries through the adoption of safety as an inherent part of everything we do. This is enacted through safety leadership, clear expectations, accountability and establishing a safety culture that drives learning and improvement, not blame.

This year we consolidated our corporate reporting platform to capture better understanding of root causes and increased levels of assurance. These additional data points will help our continued focus on becoming a learning organisation. This data has established trends regarding musculoskeletal disorders due to the manual handling nature of some of our processes, together with cuts to fingers and hands. The relevant businesses have developed plans to reduce the risk of injuries and it is hoped that this will be reflected in future reporting.

With regards to leadership on safety, this again has never been more critical than during the pandemic. Business unit leaders continue to manage an evolving situation through the Chemring CV-19 Playbook, ensuring the appropriate rigour and governance through our change management process. Our focus on injury prevention, in response to CV-19, continues to place more emphasis on people's emotional wellbeing, which is supported by the Healthy Workplace Sub-Committee.

HSE RISK MANAGEMENT

Safe delivery of our business continues through the management of risk and is built around understanding our hazards, and establishing clear expectations and consistency. Our HSE Management System Framework Standard puts our HSE policy into practice by setting standards on eight core elements across the Group to drive a robust and common approach to the management of HSE. Each business is audited every two years to ensure compliance, with high-priority non-compliances being reported and monitored at Executive Committee level. The changes made last year to our Operational Assurance Statement process has helped the businesses focus on compliance with the HSE Framework which in turn provides useful insights when planning the Line of Defence 2 ("LOD2") audits.

OUR HSE PERFORMANCE

We measure our HSE performance to reflect both occupational and process safety. In doing so we have several data points, one of which is an external review of our prevailing safety culture. This year we invited back a team of experts to review our progress since their previous reviews back in 2018 and 2019. The review has highlighted good progress as we journey towards becoming a high reliability organisation. In particular the review confirmed our businesses as approaching a Group-wide calculative status, with robust processes and systems generating data and signals around our high-hazard operations. The level of collaboration has also increased, with many businesses sharing best practice on a regular basis to help accelerate our performance, all of which is supported by a positive tone from the top and underpinned by risk-informed, visible and proactive safety leadership.

OCCUPATIONAL SAFETY

We focus not only on actual injuries but also hazards and near miss events. We therefore place an emphasis on near miss and hazard reporting as a leading indicator of our maturing safety culture. This year we had 2,828 occupational safety near miss and hazard reports, compared to 2,602 in 2021, We had a total of 13 high-potential ("HIPO") incidents compared to 9 last year.

We are embedding this learning into the organisation through quarterly Learning from Incidents reviews with all business leaders and increased use of safety alerts, not only to share incident learning but also as good practice.

PROCESS SAFETY

In addition to our reactive metrics we also measure process safety near miss events, with a total of 880 recorded in 2022 compared to 625 in the previous year. Near miss reporting is crucial if we are to understand and prevent incidents which is why we encourage all our employees to stop, warn and inform so we can manage any emerging risks. The increase in near miss reporting represents good progress as an organisation willing to learn and improve on a continuous basis. During 2021 we consolidated the reporting of our leading indicator for process safety events ("PSE"), which are categorised as level 1, 2 and 3, with 3 being the event with the most serious potential. We set a limit of below 2 PSE at level 2 and 3 per 100 production employees, and this year we achieved 1.86.

HSE STRATEGY FORWARD OUTLOOK

In 2021 we reviewed the current three-year strategy focused on the control of major accident hazards, injury prevention and HSE risk management. This review resulted in an additional element regarding the right capability being added as well as a more balanced approach towards health, wellbeing and the environment. The revised strategy is therefore a natural evolution and reflects the maturity of the business. As such, during the next three years we will continue to focus on:

- asset integrity and process safety – relating to the control of major accident hazards and PSE events including a review of all electrostatic discharge risks;
- occupational health and safety – focusing on injury and illness prevention, including psychological health and wellbeing;
- environment and sustainability – to co-ordinate our work on reducing our environmental impact; and
- improved data – enabling data-driven discussions and decisions leading to a more proactive culture.

Our progress against this strategy will be reported in the next annual report and accounts.

ENVIRONMENT

REDUCING OUR ENVIRONMENTAL IMPACT

Our goal of zero harm goes beyond the management of safety. We are committed to environmental sustainability, both globally and in our local communities, and reducing our environmental impact.

OUR COMMITMENT

In 2021 we committed to reduce our total direct and indirect greenhouse gas ("GHG") emissions year-on-year and to be carbon neutral by 2030. In this report we include information on our climate-related risks and opportunities in alignment with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"). We have made good progress on our goals, with a 7.3% reduction in scope 1 and market-based scope 2 emissions from our 2021 baseline. We also have identified a path to become carbon neutral by 2030. In 2022 we published our first CDP report and we have begun to collect and report selected scope 3 carbon emission data. This work is overseen by our Sustainability Committee with regular progress reports to the Board.

INTRODUCTION

Our environmental performance information is presented in accordance with the Streamlined Energy and Carbon Reporting ("SECR") Guidance (March 2019), as specified under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. Data is presented for our financial year, from 1 November through to 31 October, and includes information on our most significant environmental aspects: energy consumption and associated GHG emissions; freshwater use; and waste generation. The scope of the reporting includes all continuing global businesses under our operational control and does not include several small leased office spaces, where we do not have energy data and they are not under our operational control.

Our GHG emissions calculations are undertaken in accordance with the GHG Protocol Corporate Accounting and Reporting Standard. We are reporting 2021 and 2022 data and include scope 1 GHG emissions, as well as location and market-based approaches for scope 2 emissions of purchased electricity. Our key scope 1 emissions sources are natural gas and fuel oil used for building and process heating, with small contributions from fuels used in on-site vehicles and refrigerant releases. Primary scope 1 emissions are CO_2, with small contributions from CH4, N2 and HFCs.

Our energy and carbon figures are now recorded on a monthly basis allowing cross checks for anomalies. To ensure a consistent approach we utilise DEFRA 2020 published conversion factors for all conversions (except non-UK electricity where US eGRID and IAE factors are used). Spot checks are conducted against utility bills to validated published figures.

OUR APPROACH

We are actively seeking ways to reduce our impact on the environment and build resilience to climate change by focusing on energy, waste and understanding the impact of global climate change on our operations. These three focus areas were updated in 2021 based on a materiality review of our environmental impacts and risks, with a focus on impacts that we can influence. These focus areas are periodically reviewed by our Environmental Committee, consistent with broader sustainability goals and reporting guidelines.

Many of our Chemring businesses have environmental management systems and have undertaken local initiatives and programmes to reduce environmental impacts. In addition, in 2022 we began using a new data collection and dashboard reporting system.

OUR STRATEGY

Our strategy is to reduce our global GHG emissions through improving energy efficiency to reduce consumption and by purchasing electricity from renewable sources. In 2021 we committed to becoming carbon neutral for scope 1 and 2 emissions by 2030 and working to be a net zero organisation by 2050.

To improve our energy efficiency, we continue to make improvements to our operations, including installing new energy-efficient buildings to replace old buildings, upgrading HVAC systems and improving lighting.

In 2022 we installed new HVAC systems at our Pennsylvania facility and reduced natural gas usage at our Scotland site.

CLIMATE CHANGE RESILIENCE

We recognise that climate change has the potential to have an impact on our operations, having experienced flooding from a severe weather event at our Tennessee facility in 2018 and wildfires in areas surrounding our Australia operations in 2019. We have begun to review the physical and transition risks of global climate change on our operations and supply chain.

ENERGY USE AND ASSOCIATED GHG EMISSIONS

Our Countermeasures & Energetics businesses in Norway and Scotland are responsible for 38.8% and 24.4%, respectively, of Group energy usage. This is followed by our business in Tennessee, which accounted for 18.9% of annual energy consumption. In 2022 we developed our updated carbon reduction plans in all of our businesses. Our UK operations account for 74.5% of our scope 1 emissions, 16.4% of our scope 2 emissions and 33.6% of our energy use.

In 2022 we have achieved a 7.3% reduction in market-based scope 1 and scope 2 carbon emissions, from 20,684 tCO_2e in 2021 to 19,175 tCO_2e in 2022. Location-based emissions increased by 1.4% during the year. When normalised for gross revenue, market-based scope 1 and 2 emissions reduced 17.7%, from 52.6 to 43.3 tCO_2e per £m of revenue.

We made significant improvements in our market-based carbon emissions. Reductions have been achieved across the businesses through initiatives such as the use of biofuels at our Roke and Salisbury sites; improved efficiency and maintenance of our steam systems in Scotland; and the use of renewable energy in Australia. We also acquired and retired Renewable Energy Certificates ("RECs") for some of our US electricity consumption.

	2022			2021		
	UK	US, Norway, Australia	Group total	UK	US, Norway, Australia	Group total
Scope 1 emissions						
Combustion of fuel in any premises, machinery or equipment operated, owned or controlled by the Group						
CO_2e (tonnes)						
Gas	**4,901**	**460**	**5,361**	5,303	504	5,807
Heating oil	**1,000**	**388**	**1,388**	1,475	96	1,571
Bio fuels	**1**	**—**	**1**	—	—	—
LPG	**39**	**239**	**278**	29	249	278
Fuels consumed by Group-owned and leased vehicles, excluding business travel and employee commuting						
CO_2e (tonnes)						
Diesel	**95**	**78**	**173**	93	97	190
Petroleum	**—**	**216**	**216**	—	77	77
LPG	**—**	**25**	**25**	—	19	19
The operation or control of any manufacturing process by the Group						
CO_2e (tonnes)						
On-site waste incineration	**26**	**160**	**186**	21	147	168
Refrigerants discharged	**25**	**518**	**543**	73	488	561
Total scope 1 emissions CO_2e (tonnes)	**6,087**	**2,084**	**8,171**	6,994	1,677	8,671
Scope 2 emissions						
Total emissions CO_2e (tonnes)						
Electricity – location-based	**2,426**	**12,372**	**14,798**	3,086	10,889	13,975
Electricity – market-based	**—**	**11,004**	**11,004**	—	12,013	12,013
Total scope 1 and 2 emissions						
Location-based CO_2e (tonnes)	**8,513**	**14,456**	**22,969**	10,080	12,566	22,646
Market-based CO_2e (tonnes)	**6,087**	**13,088**	**19,175**	6,994	13,690	20,684
Total energy consumption (Mwh)	**44,361**	**87,478**	**131,839**	48,373	81,689	130,062

We engaged ERM CVS to provide independent assurance of our 2021 and 2022 total scope 1 and total scope 2 location-based emissions figures as well as total scope 2 market-based emissions figures. Their Independent Assurance Statement can be found on page 12 of our Sustainability Report 2022. The basis of reporting document can be found on the Group's website at www.chemring.com/basisofreporting.

	2022	2021
Total scope 1 and scope 2 emissions CO_2e (tonnes) – location-based	**22,969**	22,646
Total scope 1 and scope 2 emissions CO_2e (tonnes) – market-based	**19,175**	20,684
Group revenue (£m)	**442.8**	393.3
Total CO_2e (tonnes) per £m of revenue (location-based)	**51.8**	57.6
Total CO_2e (tonnes) per £m of revenue (market-based)	**43.3**	52.6

SCOPE 3 CARBON DATA COLLECTION

In 2022 we initiated the collection of a limited set of scope 3 carbon data. Details of this can be found on page 10 of our Sustainability Report 2022.

WATER CONSUMPTION

In 2022 we used a total of 943,769 m^3 of freshwater. There was a considerable drop in usage from 2021 (1,220,000 m^3) due to reduced water usage in Scotland. None of our operations are in water-stressed regions as defined by the United Nations. Our Australian facility continues to collect and use rainwater that falls on the site for facility needs.

	2022			2021		
	UK	US, Norway, Australia	Group total	UK	US, Norway, Australia	Group total
Freshwater (m^3)						
Freshwater use	**437,274**	**506,495**	**943,769**	668,000	552,000	1,220,000

WASTE GENERATION

In 2022 we introduced a new reporting system for waste which allow tracking of waste destinations.

Our hazardous waste reporting increased from 2021 due to inclusion of a recycled waste that was not included in previous reports. This accounts for the significant rise in recycled hazardous waste reported (1,361 tonnes from 33 tonnes). In 2022 our total hazardous and non-hazardous waste was 1,914 and 2,103 tonnes respectively. Of this, 71% of hazardous and 57% of non-hazardous waste was recycled.

	2022			2021		
	UK	US, Norway, Australia	Group total	UK	US, Norway, Australia	Group total
Waste (tonnes)						
Recycled, non-hazardous	**129**	**1,064**	**1,193**	397	635	1,032
Recycled, hazardous	**59**	**1,302**	**1,361**	32	1	33
Not recycled, non-hazardous	**172**	**739**	**911**	164	977	1,141
Not recycled, hazardous	**36**	**517**	**553**	88	242	330
Total waste (tonnes)	**396**	**3,622**	**4,018**	681	1,855	2,536

At our Countermeasures & Energetics businesses we generate unique waste which is often best managed by destroying it at on-site treatment facilities. In 2022, we continued work on upgrading the testing and treatment facilities at our Scotland facility.

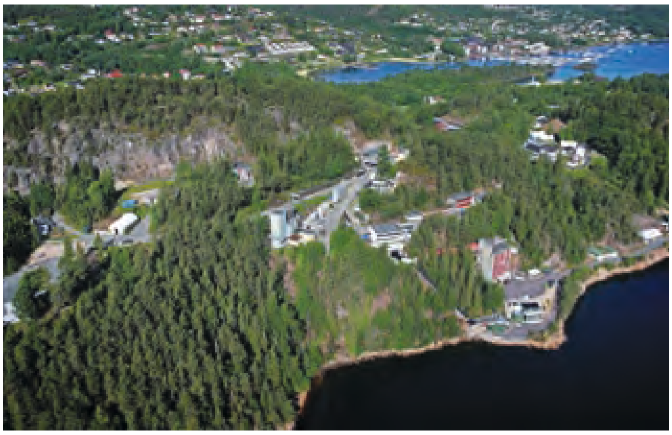
With respect to waste management there are two priority areas: the reduction of waste generation and the reduction of waste sent to landfill.

To help track progress in these areas we have begun recording the amount of waste sent to landfill, and are evaluating and updating our waste reduction plans at our largest waste-generating businesses.

LAND QUALITY

Our facility in Chicago, US, is located on a site which has "superfund" status under the US contaminated land regime. The business continues to work with consultants and the regulatory authorities to ensure that its legal obligations in relation to this matter are fully satisfied.

In 2022 we also incurred costs in connection with environmental remediation on the sites of the munitions businesses formerly owned by the Group in Belgium and Italy in accordance with the terms of sale of those businesses. The Group carries a £3.9m (2021: £3.0m) provision in respect of environmental liabilities, which the Board considers to be adequate (see note 22).



The Task Force on Climate-related Financial Disclosures ("TCFD") establishes a number of recommendations for disclosing clear, comparable and consistent information about the risks and opportunities presented by climate change.

The Board notes the recommendations in relation to the mandatory disclosures of climate-related financial risk arising from Listing Rule 9.8.6(8) and has concluded that the business strategy remains resilient given the mitigations already implemented and planned.

We consider our disclosure to be consistent with all the TCFD Recommendations and Recommended Disclosures including section C of the TCFD Annex entitled "Guidance for all Sectors" excluding full completeness of scope 3 emissions for which we continue to embed the relevant capabilities across the organisation to track and disclose this data. In 2023, we will focus on developing our reporting to enable future disclosure.

Our statement to meet these requirements, providing information on the governance of climate-related issues, integration with overall risk management, strategy in managing climate-related issues and opportunities, and the metrics to measure progress towards our targets, is set out in the following pages.

GOVERNANCE

BOARD OVERSIGHT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES	The Board is responsible for overseeing climate-related risks and opportunities in delivering the Group's strategy and running the Group's operations. The Group Chief Executive is the Board director responsible for sustainability across the Group which includes climate-related risks and opportunities. The Board reviews the Group Risk Register as a scheduled agenda item every six months in which both physical and transitional climate-related-risks alongside opportunities are considered. The Board is informed of progress against the Group's carbon reduction targets implemented in 2021. Associated action plans, capital expenditure and budgeting related to targets are overseen and reviewed by the Board.
MANAGEMENT'S ROLE IN ASSESSING AND MANAGING CLIMATE-RELATED RISKS AND OPPORTUNITIES	To facilitate and ensure a centralised approach to sustainability across all our businesses, the Group Sustainability Committee (consisting of members of the Group's Executive Committee) was formed during 2021. The Committee is chaired by the Group Chief Executive and has oversight of all the Group's ESG-related activity including that of assessing and managing climate-related risks and opportunities. The Group Chief Executive, informed by the Sustainability Committee, is responsible for ensuring that the Board is updated quarterly on all key matters including the impact of climate-related issues. Members of the Committee are informed through their respective departments on matters relevant to climate-related issues. Executive directors and members of the senior leadership team within the Group are incentivised to achieve the Group's carbon reduction targets through their annual bonus and long-term incentive plan (Performance Share Plan ("PSP")) as detailed on pages 96 to 119.

STRATEGY

CLIMATE-RELATED RISKS AND OPPORTUNITIES IDENTIFIED OVER THE SHORT, MEDIUM AND LONG TERM

THE IMPACT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES ON CHEMRING'S BUSINESSES, STRATEGY AND FINANCIAL PLANNING	The risks and opportunities associated with climate are reflected in our strategy and plans, and we strive for continuous improvement to reflect our purpose, our growth strategy, the external landscape and the expectations of our stakeholders. Climate risks and opportunities covering both physical and transitional aspects of climate change, were considered during the year. Associated time horizons associated were viewed as short-term (0 to 2 years), medium-term (2 to 5 years), or long-term (5 to 30 years). The basis for the time horizons was to align with our internal strategic and financial planning processes. Short-term being the immediate budget period, medium-term covering the remaining detailed financial planning period and long-term being outside of these periods. From this, the key risks and opportunities that could have a material financial impact on the organisation have been identified. Where material, the Group is committed to managing regulatory, reputational and market risk related to climate change. Details of the principal risks and uncertainties which could have a material impact on the Group's business model, strategy, future performance or reputation, of which climate change has been identified as a risk, are covered in the risk management section on pages 64 to 73. Climate-related risks and opportunities are outlined in more detail on pages 46 to 49.

1. IEA (2021), World Energy Model, IEA, Paris https://www.iea.org/reports/world-energy-model.

STRATEGY

CLIMATE-RELATED RISKS AND OPPORTUNITIES IDENTIFIED OVER THE SHORT, MEDIUM AND LONG TERM

THE RESILIENCE OF CHEMRING'S STRATEGY, TAKING INTO CONSIDERATION DIFFERENT CLIMATE-RELATED SCENARIOS, INCLUDING A 2°C OR LOWER SCENARIO

In 2021/22 the Group began to develop its climate-related scenario analysis to improve understanding of the behaviour of certain risks given different climate outcomes. We have utilised three public climate-related scenarios which we deem to be reliable and related to our business operations to aid our understanding of the business resilience to climate change. We will revisit these scenario analyses to ensure these remain appropriate. The scenarios are as follows:

- Sustainable Development (SDS)[1] outlining a global low carbon transition which limits the global temperatures rise to 1.65 °C by 2100, with 50% probability;
- Stated Policies (STEPS)[1] outlining a combination of physical and transitions risk impacts as temperatures rise by 2.6°C by 2100, with 50% probability; and
- RCP 8.5[2] an extreme physical risk scenario, where global temperatures rise between 4.1-4.8°C by 2100.

Scenarios have been supplemented with additional sources that are specific to each risk to inform assumptions included in projections. The Group continues to refine its approach to quantitative aspects of this modelling and will report further information as this develops.

Assumptions have been made as part of this scenario analysis:

- Chemring will have the same business activities that are in place today. That means impacts should be considered in the context of the current financial performance, prices and operational locations.
- Impacts are assumed to occur without the company responding with any mitigation actions, which would reduce the impact of risks.
- The analysis considered each risk and scenario in isolation, when in practice they may occur in parallel as part of wider set of potential global impacts.
- Carbon pricing was informed by the Global Energy Outlook 2021 report from the International Energy Agency ("IEA").

Results of the scenario analysis are outlined on pages 48 to 49.

2. IPCC, 2014: Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change.

RISK MANAGEMENT

ALL BUSINESS UNITS ARE REQUIRED TO ASSESS RISK IN RELATION TO THE DELIVERY OF THEIR STRATEGY AND OBJECTIVES, WITH CLIMATE-RELATED RISKS FORMING PART OF THIS CONSIDERATION

CHEMRING'S PROCESSES FOR IDENTIFYING AND ASSESSING CLIMATE-RELATED RISKS	Current and emerging climate-related risks and opportunities are considered, whether they arise within the Group's operations or within the value chain, including existing and emerging regulations. In 2021/22, climate risks and opportunities relevant to the Group were identified and reviewed with the aid of external consultants, and refined through consultation with key Chemring personnel, including members of the Sustainability Committee, Risk Management Committee and the Board. Risks and opportunities were assessed in line with the Group's methodology to assess principal risks. A probability and impact matrix defines the likelihood of the risk, assessed based on historical evidence or experience that such consequences have materialised (Very Unlikely, Unlikely, Neutral, Likely, Very Likely). The magnitude of impact is also classified (Low, Low-Medium, Medium, Medium-High, High) and, where possible, a single figure estimate for the financial impact was calculated.
CHEMRING'S PROCESSES FOR MANAGING CLIMATE-RELATED RISKS	Once each climate-related risk and opportunity was identified, the Group sought to quantify the financial impact, appropriate strategic response, and the cost of implementing the mitigations. This process includes considering the long-term impacts arising from the risks identified on our products and services. This in turn helped to determine the materiality, allowing the Group to prioritise resources to manage its most significant climate-related impacts, determine the best management response or highlight areas requiring further investigation. All of the Group's climate change risks and opportunities are covered by existing or planned mitigation and adaptation strategies.
PROCESSES FOR IDENTIFYING, ASSESSING, AND MANAGING CLIMATE-RELATED RISKS INTEGRATED INTO CHEMRING'S OVERALL RISK MANAGEMENT	Climate is considered as a Group principal risk alongside the risks identified in the wider risk management process. This ensures climate-related risks are integrated into the Group's overall enterprise risk management framework. The management of each business is responsible for the identification, management and reporting of local risks, in accordance with the Group's risk management framework. The Risk Management Committee meets quarterly and, utilising the input from the business risk registers and the US risk register, identifies those principal risks which are material to the Group as a whole. The completed climate-related risk and opportunity register was reviewed by the Board during the financial year.

METRICS AND TARGETS

METRICS USED TO ASSESS CLIMATE-RELATED RISKS AND OPPORTUNITIES IN-LINE WITH CHEMRING'S STRATEGY AND RISK MANAGEMENT PROCESS WITH CLIMATE-RELATED RISKS FORMING PART OF THIS CONSIDERATION

SCOPE 1, 2 AND, IF APPROPRIATE, 3 GHG EMISSIONS AND THE RELATED RISKS	Chemring monitors scope 1 and 2 emissions with aspects of scope 3 disclosed on page 43. The Group also discloses other environmental metrics such as freshwater use and waste generated, as reported on page 44. For the current year disclosure of scope 3 emissions, please refer to page 10 of the Sustainability Report 2022.
CHEMRING'S TARGETS FOR MANAGING CLIMATE-RELATED RISKS AND OPPORTUNITIES AND PERFORMANCE AGAINST TARGETS	A crucial first step in Chemring's approach to addressing climate-related risks and opportunities in FY21, Chemring set appropriate near and longer-term sustainability goals, with targets against which our progress could be measured. These included but were not limited to reducing our direct (scope 1) and indirect (scope 2) emissions year-on-year, to be carbon neutral by 2030 (scope 1 and 2) and to be net zero by 2050. **Emissions targets for the Group are outlined on page 42.**

STRATEGIC REPORT
GOVERNANCE
FINANCIAL STATEMENTS

CLIMATE-RELATED RISKS

Risk	Wildfires	Severe weather events	Technology
Type	Physical	Physical	Transition
Area	Own operations	Own operations	Own operations/downstream
Primary potential financial impact	Lost revenue	Lost revenue	Higher expenditure
Time horizon	Short-term	Short-term	Medium/Long-term
Likelihood	Likely	Likely	Unlikely
Magnitude of impact	Low	Low-Medium	Low

IMPACT ON THE BUSINESS AND STRATEGY

WILDFIRES

Climate change poses an increased risk to the likelihood and severity of grass fires, which have the potential to disrupt production and product delivery due to physical damage to surrounding infrastructure and Chemring facilities, as well as creating additional costs of remediation. Wild grass fires that occurred in 2019 on one of the business sites in Victoria, Australia, which, although did not impact operations, highlighted this threat.

Current mitigations have already been deployed in the form of cutting back grassland close to operations and ensuring local mitigations in place for activities such as planned burns.

Using analysis conducted for the risk assessment of wildfires in Australia (the area in which the likelihood for the risk is highest), differences in scenarios were analysed to understand the change in land annually exposed to wildfires in Victoria. Looking at the worst-case climate change scenario (RCP 8.5), the median shifts by ~0.1% to the SDS scenario. The minimal impacts from this risk are highlighted within the Australia region in the physical risks table (Table 1).

SEVERE WEATHER EVENTS

Extreme weather events resulting from cyclones and storms are exacerbated by climate change, having the potential to impact the Group's operations. Physical damage to Chemring facilities and surrounding infrastructure could result in disruption to production and product delivery, and impact overall revenue. The Tennessee and Charlotte sites are located in areas with exposure to tropical storms. For example, in 2018, a severe weather event caused partial flooding at the Tennessee facility. As a consequence, drainage improvements have been made, with further mitigations planned to reduce the impact of potential flooding events in the future.

In looking at future scenarios, the physical risk of severe weather events remained localised to sites within the US, particularly Tennessee. Even in the RCP 8.5 scenario, the risk of expected damage from river flooding projected out to 2050 remains similar to scenario SDS. This is also summarised within Table 1.

TECHNOLOGY

Climate-related requirements are changing in key customer procurement contracts, which presents a risk that the Group's costs could increase in order to comply. This would influence expenditure along with other potential impacts including loss of contracts and disposal or write-off of legacy/stranded assets.

In response to this risk, Chemring maintains continual assessment of government priorities in terms of technology roadmaps and procurement requirements as necessary. Additionally, close relationships with customers are maintained to facilitate effective risk management and long-term planning.

Under the scenario (SDS), the Ministry of Defence has outlined its approach to climate change and sustainability strategy. At present we do not expect this to affect the Group given the low amount of carbon emitted in the use phase of products. Future procurement decisions may focus on the sustainability of a supplier's business operations, for which Chemring has a roadmap towards becoming a net zero organisation by 2050.

TABLE 1 – OVERALL PHYSICAL RISK IMPACTS SPLIT BY GEOGRAPHIC REGION AND SCENARIO ANALYSED (STEPS EXCLUDED DUE TO DATA LIMITATIONS)

	Site location			
Scenario	Australia	Europe	UK	North America
SDS	● Low	● Low	● Low	● Low
RCP 8.5	● Low	● Low	● Low	● Medium

● Low impact
● Medium impact
● High impact

CLIMATE-RELATED OPPORTUNITIES

Opportunity	More efficient production	Sourcing low-emission energy	Supply chain resilience
Type	Resource efficiency	Energy source	Resilience
Area	Own operations	Own operations	Own operations/upstream
Primary potential financial impact	Reduced costs	Reduced costs	Reduced costs of input goods and input transportation
Time horizon	Short-term	Short to Medium-term	Short to Medium-term
Likelihood	Likely	Very likely	Very likely
Magnitude of impact	Low	Low	Low-Medium

IMPACT ON THE BUSINESS AND STRATEGY

MORE EFFICIENT PRODUCTION

Improving energy efficiency through initiatives such as upgrading building facilities, and LED lighting retrofits has the benefit of saving on direct energy costs. Plans for future initiatives are in place with planned financial savings.

This opportunity is largely unaffected by external changing policy scenarios, as future initiatives are already in place with planned financial savings.

SOURCING LOW-EMISSION ENERGY

Increased renewable energy availability and improvements to technology are leading to renewable energy becoming increasingly inexpensive. Chemring will benefit from de-linking energy costs to fossil fuel prices through the procurement of renewable energy for its sites. In addition, this will reduce the Group's exposure to GHG emissions and therefore lower sensitivity to changes in the cost of carbon.

The carbon price (US$/t$CO_2$e) is projected to increase as follows:

Scenario	2030	2040	2050
STEPS	65	75	90
SDS	120	170	200
Difference	85%	127%	122%

There is an opportunity to benefit from the avoided emissions of sourcing energy from fossil fuel based providers. Future scenarios that drive up fossil fuel prices such as the phase out of subsidies (SDS) and incentives for clean energy transitions such as those under the European Green Deal (STEPS) provide further impetus for procuring energy from more renewable sources.

SUPPLY CHAIN RESILIENCE

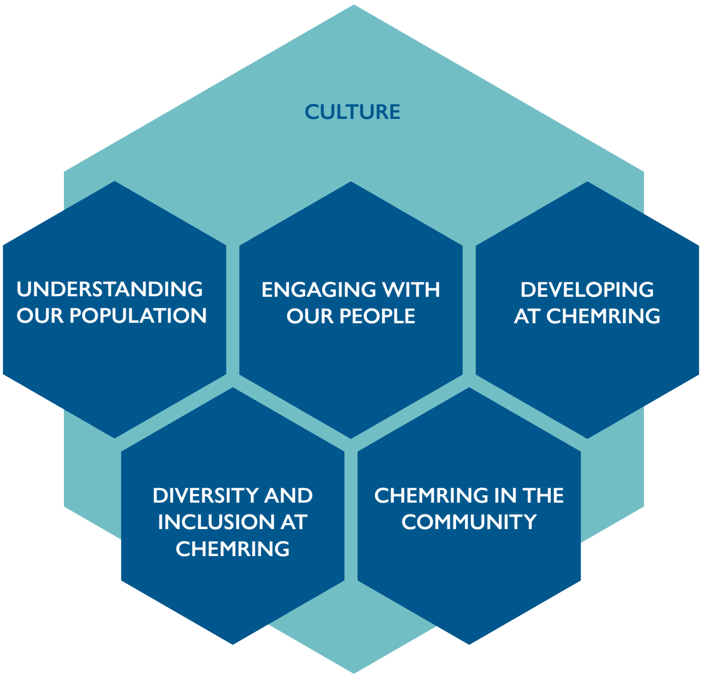
Chemring has identified opportunities to improve resilience in the supply chain, including from the physical impact of climate change by understanding supplier risks and developing redundancy. Some suppliers within the supply chain are sole suppliers, which requires an understanding of their potential risks and the implementation of mitigations to minimise any supply disruptions.

Under the worst case scenario RCP 8.5, physical risks of climate change may increase for some suppliers depending on their geographic location and current risk to extreme weather events. As a further supply chain investigations are developed, location-based data for sole suppliers will be available and can inform the climate-related risk scenario analysis.

INVESTING IN OUR PEOPLE

Chemring people are at the heart of our business. We invest in our people at all levels across every location and function, creating strong foundations for our future success.

OUR OVERALL PEOPLE APPROACH IS FOCUSED ON FIVE KEY AREAS:



CHEMRING CULTURE

Our people approach is underpinned by our culture. Engaged, motivated, empowered and appropriately-skilled colleagues are integral to our success as it is through them that we will progress our strategy and deliver long-term growth. Our goal continues to be to ensure that we have the right people, in the right place, at the right time, with the right skills, working in a safe, healthy and inclusive environment.

The Chemring cultural framework has four pillars and these provide the structure around which all our actions are set and measured. These pillars are:

In 2022 we continued to build on the progress made since 2019. Using a well-practised blend of global direction and structure, delivered locally through individual business units, we continue to support our Chemring colleagues in their mission to do their best work every day.

Since the initial culture review, every part of the business has developed actions to support progress in each area. Progress each year builds on the work done previously, as well as putting in place new activity to support the cultural journey.

The ESG agenda is now well embedded across the business and leadership support has ensured that the work around the environment, diversity, good governance and continuous improvement has become a key part of the culture at Chemring.

During 2022 the HSE teams have worked closely with the people teams as part of the ongoing work around the safety culture at Chemring. Our overall culture and our approach to safety are closely linked and mutual support is key to continuing progress in both areas.

We have further embedded our approach to providing development opportunities at all key career levels – Early Careers, First Line Managers, Experienced Managers and Senior Leadership Teams – and extended this to include education, awareness and action planning around diversity and inclusion appropriate for each level.

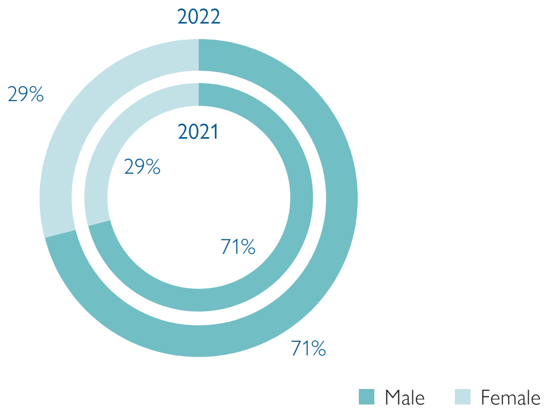
With the restrictions of the pandemic easing throughout the year in all geographies, the focus has been on bringing colleagues back together and resetting ways of working. Local employee forums have been revitalised with groups coming together to restart discussions around the experience of working at Chemring. Hybrid working principles have now been adopted as appropriate for each part of the business, providing further flexibility to complete work where it makes most sense to do so. Community and recognition events, such as charity fundraising, working with veterans' organisations and the return of social events for colleagues, have provided further opportunities for in-person interaction and this supports the development and reinforcement of the Chemring culture.

Measuring progress is key to understanding how far we have come in achieving our cultural aspirations. Our Employee Voice initiative ensures that we are regularly checking in with colleagues to track and share our progress towards the aspirational culture goals. The real-time bespoke sentiment tracking tool creates dashboards of participation and positivity based on the four cultural pillars. Business unit leaders review these regularly and share progress with colleagues at all levels through multiple channels.

Wellbeing continued to be a key theme in 2022. In line with the approach of Global Voice, Local Accent, a global committee focusing on creating and maintaining a healthy workplace, which was established in 2021, continued to meet throughout 2022. Many business units have established Wellbeing Teams locally to focus on areas of local interest and importance, and to deliver activities and support to promote wellbeing on site.

As part of line manager development and through the early careers network events, areas such as maintaining mental health have been addressed, as well as helping individuals to develop healthy habits. Our strategy is to build this focus in the early stages of our talent pipelines to ensure these topics become "business as usual" as colleagues move through the organisation.

TOTAL POPULATION



Mental health first aid training has continued across all business units in 2022, with some business units also providing specific mental health training on site throughout the year.

Support through the provision of occupational health services on demand in each location has been used extensively in 2022. Additionally, the provision of Employee Assistance Programmes, which have been in place for a number of years, has been refreshed in 2022, with additional communication and provision of support to colleagues and managers.

UNDERSTANDING OUR POPULATION

Our Chemring business is highly diverse. Our success depends on understanding our global population. During 2021 a full review of all in-place HR technology revealed significant differences in level of provision and importantly in the ability to derive data to understand the population. In 2022 these insights were developed and an approach agreed which will move towards a more consistent systematic approach to managing employee information. In the US, the people team have commenced work to implement a single vendor solution for end to end employee lifecycle support using an existing supplier as the start point. A similar programme will commence for the UK businesses in 2023.

DEVELOPING OUR PEOPLE

>90
graduates and apprentices hired in the year

120
graduates and apprentices took part in UK wide Early Careers Development Programme and Conference

>340
line managers and supervisors involved in global Leading our People programme

80
experienced managers enrolled on Aspire@Chemring, our first fully virtual management development programme

80
senior leaders took part in quarterly development sessions as individual senior leadership teams as part of the Leading our Organisation initiative, including DE&I training and safety development

LISTENING TO OUR PEOPLE

>2,300
colleagues with regular access to bespoke Employee Voice pulse survey

40%
regular response rate of participants in Employee Voice

>75%
positivity score

>5,000
individual comments

UNDERSTANDING OUR POPULATION CONTINUED

The adoption of modern HR technology will support our ability to attract, recruit, on-board and then manage and develop colleagues, as well as reducing the risk around key activities such as payroll processing. The ability to report both key static metrics, as well as to interrogate process metrics such as movements through the organisation, impact of development and pay progression, will provide the opportunity to leverage further our key asset – our people.

Our investment in 2019 in the Employee Voice sentiment monitoring tool means that we are able, in real time, to create an approach of "You said, we did". The launch of the Experienced Manager Development Programme in 2022 was in response to both a recognised gap in the development approach as well as addressing comments raised through the Employee Voice tool.

Similarly, the ongoing focus on Performance Conversations supports requests from colleagues for regular feedback from their managers. Continuing improvements in internal communications – such as the programme to put TV screens across all locations to enable real-time communications to those who are not able to access email at work – are also in direct response to feedback from the Employee Voice statements.

ENGAGING WITH OUR PEOPLE

Communication both within and across the Group is key to engagement. Each business unit uses a range of formal and informal channels including all-hands meetings, smaller team briefings, employee forums, direct email messaging and the CEO's vlog, with an active Q&A session encouraging anyone from across the business to ask a question, as well as regular distribution of the Chemring magazine, Chemring-i. As pandemic restrictions eased, every business unit has taken the opportunity to bring colleagues together face to face for a range of different activities and events – from development, lunch and learn sessions, fundraisers to community activity.

The recruitment challenge being felt globally has also focused attention in all businesses. A wide range of colleagues have been involved in supporting activity to both ensure retention – through communication of the benefits of working at Chemring, sharing more widely information and updates on products and customer activities – and to generate new hires. Activities such as in-person careers events held in local communities, through veterans' associations and direct through the business units, have created the opportunity to remind colleagues of what a great place Chemring is to work, as well as providing much-needed colleague interaction after the past two years of limited contact.

Despite the challenges of the pandemic, our colleagues remain positive about working at Chemring. Across 2022 49% of colleagues regularly provided feedback via the Employee Voice tool through reacting to statements or providing written feedback. A regular review of the responses at business unit level and globally (with the US and the rest of the world taken as two different groups) ensures that concerns are identified quickly and addressed in real time.

During the year, Laurie Bowen, as Chair of the Remuneration Committee and non-executive director charged with employee engagement on behalf of the Board, met again with groups of colleagues to hear direct from them their views on working at Chemring as well as sharing the work of the Board. Laurie visited multiple locations across the UK and US and hosted eight feedback groups across three different business areas and at different levels of the organisation from our front line colleagues through to senior leaders.

Feedback from these sessions covered a variety of topics on the minds of our employees, such as how inflation is impacting the cost of living through to how our values of Safety, Excellence and Innovation are lived and breathed in our businesses. Leadership and Communication were specifically raised as areas where improvements have been made and employee ideas were shared on how we could further improve.

This feedback was shared with our local leadership teams at those locations to allow them to respond and take action. Employee feedback remains a key channel for insights into how we can shape Chemring's employee engagement priorities.

In 2022 we continued to ensure that all colleagues were able to share in our corporate success. Discretionary bonus schemes are now in place at all levels in our organisation for colleagues working in every business area. These schemes, which are tailored to suit local business requirements and focus, provide bonus awards quarterly, half yearly or annually tied to the performance of the individual business unit and ensure our colleagues feel that they are contributing to the overall success of their business.

Development is at the heart of the people strategy at Chemring. It is essential in ensuring we have the capabilities today and in the future to appropriately support the business. This development also underpins our retention and attraction capability with current colleagues and future candidates becoming increasingly demanding of the organisation and the investment in their future.

There were some significant additions to the development framework in 2022, meaning that Chemring now has a fully formed development framework taking colleagues from their Early Careers as graduates or apprentices and providing development at key career milestones in support of both technical and leadership capability.

Highlights of our development approach are:

- A UK-based Early Careers Development Programme which commenced in 2022 for all new graduates and apprentices who joined in autumn 2021 in the UK, providing early leadership and people skills development and the opportunity for building a cross business network. This is complemented by technical development provided within each business unit specific to the role colleagues have been brought in to learn.
- Continued development of the Leading our People programme for all line managers globally in support of developing Chemring leadership bench strength. The initial programme – Leading our People Foundation – is undertaken by all new line managers as they progress or are hired to ensure that every colleague in this role has a strong foundational understanding of what is expected of them. Launched in 2022, Leading our People Futures provides quarterly learning and networking focused on local as well as global business challenges.
- The launch of Aspire@Chemring in 2022 supports the development of managers who have moved beyond supervisor and first line management and who are identified as future talent for our key senior roles. This creative, digitally-enabled programme encompasses group learning, networking through the use of mixed learning "pods" and links to global executive business schools including Columbia and MIT to leverage a mix of learning. The focus on Leading Human Performance and Leading Organisational Performance connects development into the personal, functional and business goals.
- Leading our Organisation is run quarterly across the year to ensure our most senior colleagues are also benefiting from the opportunity to reflect on the areas of culture which they can influence and work together to develop action plans around their local priorities.

DEVELOPING AT CHEMRING

Development is the cornerstone of the drive to continuously improve the quality of our business. Our colleagues are involved in performing a huge number of often complex processes and procedures which challenge their technical expertise every day. Alongside the above programmes for leadership development, work continues to ensure high levels of operator competence throughout the organisation. Individuals across the organisation are encouraged to undertake continuing professional development as required to ensure that expertise and knowledge remain up to date. Additionally through different routes, further technical development, including workplace PhD programmes and MBA study, is actively undertaken by a number of colleagues.

In 2022 over 30 college undergraduates joined our business units in the UK throughout the summer to experience working for Chemring as part of our summer internship programme. Summer placements are a key part of our outreach to support students pursuing STEM subjects and to encourage them to establish a career in this important area.

The Chemring Early Careers cohort continues to grow with over 80 graduates and apprentices welcomed to the UK businesses in 2022 (55 in 2021). With Early Careers colleagues now represented in most areas of the business covering both technical and functional roles, this important group of colleagues is fundamental to our future success.

Our commitment to apprentices means that we welcomed 25 apprentices in 2022. We are close to capacity for encouraging this important young talent to start their career at Chemring and so our attention is now on developing those colleagues already working with us who might benefit from formalised development beyond the Leading our People programme. Partnering with an outside organisation we will be using Apprentice Levy funding in 2023 to support colleagues in achieving ILM accredited level 3 and 5 apprenticeships as well as enabling them to benefit from creating an external network.

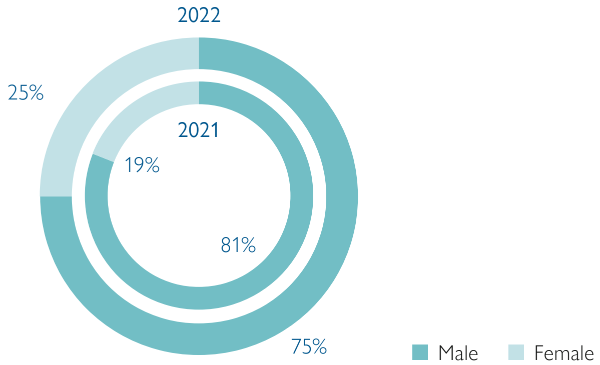
We continue our commitment to sponsoring bursaries for undergraduates through the Institute of Engineering and Technology which underlines our commitment to supporting future generations of scientists and engineers. We currently sponsor 20 students and this year welcomed two sponsored students as permanent colleagues as part of the Graduate Scheme.

The market for talent remains challenging and nowhere more so than in providing the type and number of colleagues required by our Roke business. In response, in 2022 we launched the Roke Academy in partnership with Hatch, a specialist in digital skills recruitment. The Roke Academy is a centre of excellence for learning and development, with an initial focus on non-traditional areas of recruitment to embrace undiscovered talent who may not have previously had the opportunity to enter the tech field.

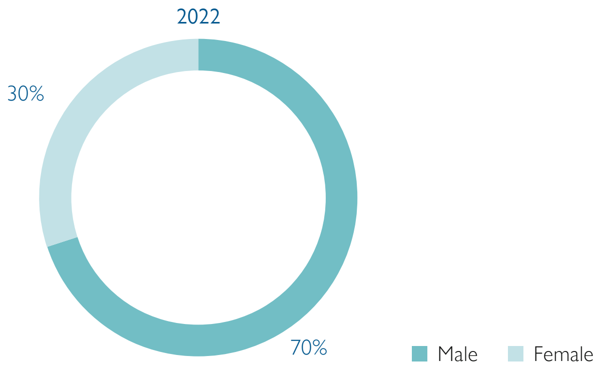
In 2022 and 2023 the Roke Academy will look to attract those who may have faced barriers to work for a variety of reasons; individuals who have found the traditional recruitment process a challenge, are returning to work after a break, transitioning from military service, or looking for a change of career. The Academy supports these diverse individuals who can bring unique strengths to our business in terms of creativity, data analysis and innovation to then progress in their chosen field. In 2022 we welcomed 24 new colleagues through this route and will continue to expand this programme in future years. The Roke Academy presents a wider opportunity to combine all development from Early Careers through technical training and to provide support for the most senior leaders at Roke as a true centre for development excellence. This will continue to evolve in 2023 and beyond.

In 2021 a global framework for assessing and supporting talent and succession planning was introduced into every business unit. This framework provides a consistent approach to understanding key roles in the business and creating an understanding of the talent pipeline for each role. This process has continued into 2022 with development plans in place at an organisational and individual level to support growth into key roles. For example, the Aspire@Chemring programme content was designed around the outputs commonly identified in the organisational talent reviews.

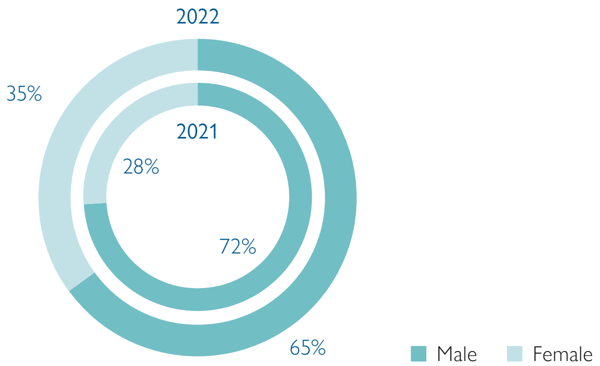
TOTAL GRADUATES AND APPRENTICES



COLLEAGUES INVOLVED IN LEADERSHIP DEVELOPMENT PROGRAMMES IN 2022



KEY ROLE TALENT PIPELINE



DIVERSITY AND INCLUSION AT CHEMRING

Chemring strives for diversity on a broad basis including gender, age, background, education, disability, neurodiversity and nationality (within the constraints of our regulatory requirements). This is an area where we continue to develop both globally and locally and which will be central to our success in the coming years. In 2021 we introduced DE&I goals for all of our senior leaders which form part of our incentive plans.

We have an increasing number of formal and informal groups around the business which support and connect people with shared characteristics or interests. In 2022 we launched the Women's Inclusivity Network, WIN@Chemring, with a focus on supporting female colleagues globally.

OUR PURPOSE IN ACTION
JOE SPIRES' GRADUATE JOURNEY

Joe Spires is a Graduate Engineer at Roke in Romsey, UK. He studied nuclear engineering at Lancaster University with support from The Institution of Engineering and Technology's ("IET") Horizons Bursary. The Bursary provides financial support of up to £4,000. Through the bursary scheme, Joe was partnered with Chemring in his second year, completing a summer internship with Chemring Countermeasures UK ("CCM UK") and leading him to his current role at Roke.

Says Joe, "The financial support I gained from the Horizons Bursary helped with quality resources such as the many expensive books needed for my course. I come from a low-income household, so this support also meant that I didn't have to work during my degree and could focus on my studies.

"I got the chance to work with a great team with a great culture at CCM UK, and, following a conversation with the Managing Director, I applied to the graduate scheme at Roke. Thankfully, I was offered a position at the end of my degree course and have been working on special projects with Roke since then. The mentoring and support I've received from the team have been second to none, and I'm learning so much.

"It's my hope to continue building my expertise in areas like robotics and sensors to enable me to architect solutions myself with confidence. I'm also excited about the travel opportunities that a role in a global organisation could offer in the future."

These groups made up of female colleagues from every function and level have put in place actions to support both male and female colleagues and provided the opportunity for colleagues to discuss local challenges and issues affecting this key population.

Across 2022 we have worked to ensure we understand the ethnic diversity of our population. We are keen to ensure that our Chemring community is reflective of the communities we operate in and are developing approaches to more formally monitor this. We are pleased to be able to provide additional reporting on ethnic diversity at Chemring in this year's annual report.

	Asian %	Black %	Mixed race %	White %	Other* %
Senior managers	3.8	5.0	0.0	91.2	0.0
Mid-level managers	1.8	4.2	1.5	91.3	1.2
All other employees	3.7	16.3	1.2	75.8	3.0

* (Inc Hispanic, NHOPI, Native American).

As an employer we make no distinction between disabled and able-bodied persons in recruitment, employment and training, career development and promotion, provided that any disability does not make the particular employment impractical or impossible under the stringent regulatory requirements under which Chemring operates.

Today we ensure that any external bodies we work with to support our hiring efforts have diverse candidate pools and attraction approaches that are open to all suitably qualified individuals and we ask questions at appointment around these important areas. The Executive Committee has a formal requirement to review the process for appointing all senior team members, including ensuring processes are without bias and open to all candidates regardless of characteristics.

As a business, we are committed to meeting, at a minimum, the labour rights and legislation requirements in each country in which we operate. In practice, we often exceed these requirements.

CHEMRING IN THE COMMUNITY

We recognise that each of the Group's businesses has an important role to play in its local community. We have a recognised community investment policy, which confirms our commitment to support selected charitable causes with a focus on the military and armed services, and those linked to the local communities in which the Group's businesses operate. Each business has its own locally held charity budget, and at a Group level, charitable donations are considered by the Executive Committee.

In addition to providing financial support, the Group also encourages and supports employees who undertake voluntary work in the local community.

Looking to specific communities, our relationship with the Institution of Engineering and Technology now spans four years with support provided directly to undergraduates studying for engineering and science-related degrees in the UK who have faced some level of hardship in achieving a place to study their chosen programme. These high-calibre students are provided with financial support via a Chemring funded bursary and the opportunity for work experience and career support.

We are aware that on occasion our manufacturing activities can impact on the local community. This impact may be due to product proofing or testing, for example. In these instances, the businesses seek to actively liaise with local residents and community groups to minimise any impact. The Group is also cognisant of the potential impact of its operations on the local environment, and is addressing this through its environmental strategy.

> "We have a recognised community investment policy, which confirms our commitment to support selected charitable causes with a focus on the military and armed services, and those linked to the local communities in which the Group's businesses operate."

OUR PURPOSE IN ACTION
MAKING MENTAL HEALTH A PRIORITY

Chemring Energetics UK ("CEUK") made mental health a priority in 2022 and employed the services of a company called Headtorch. Headtorch, based in Glasgow, are a team of specialists in learning, development and psychology. They work with organisations both nationally and internationally to build a positive mental health culture and support mental health in the workplace.

Headtorch delivered a bespoke two-day event with 30 managers, covering all areas of the site, to help them feel better equipped to encourage and facilitate mental health conversations with their teams. In addition, a group of actors from Headtorch filmed different mental health scenarios in full CEUK uniform and PPE to really bring the stories to life for those involved.

The aim was to build a positive mental health culture on site so that colleagues feel able to speak openly if they have issues. We also want to remove the stigma of talking about mental health and rather than setting KPIs and targets around mental health, which are extremely hard to measure, our priority is on supporting line managers, helping staff feel able to talk openly at work and providing access to the right professional resources to help people.

The CEUK team also established a Wellbeing Forum on site. The purpose of the Wellbeing Forum is to optimise the physical, emotional, social and mental wellbeing of staff by providing a mechanism for all our colleagues to contribute to the CEUK wellbeing agenda.

CHEMRING IN THE COMMUNITY CONTINUED

Across Chemring our colleagues support a wide range of charities, both local and national. Highlights this year include:

Support for Ukraine – Since March 2022, Chemring colleagues have pulled together across the organisation to fundraise and donate to support the humanitarian crisis in Ukraine, with Chemring matching all money raised.

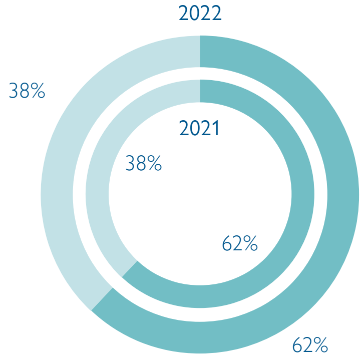
Veterans and military charities – A number of charities directly related to providing support to service veterans are supported across the Group. Activities range from fundraising to donations and providing time and resources to initiatives.

Community building projects – In the US, Chemring Energetic Devices ("CED") is supporting Habitat for Humanity, an international charity fighting global poverty and homelessness, by spending a day helping build homes as well as fundraising in support of the charity.

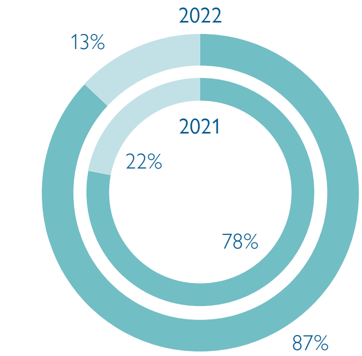
Other local support – There is much local activity supporting charities close to our sites. Chemring Australia are supporting a women's refuge through the WIN@Chemring team, and at CED colleagues support local families over the holiday season through the Adopt-a-Family scheme.

Colleagues across Chemring regularly take on individual challenges for causes special to them with donations often matched by the company. Climbing mountains, moving large objects and running marathons have all been tackled in the year.

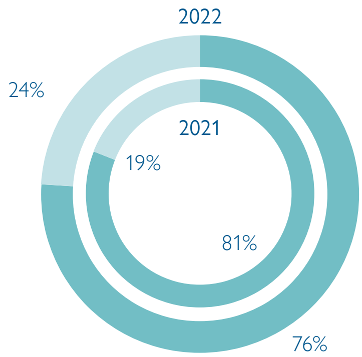
BOARD OF DIRECTORS



EXECUTIVE COMMITTEE



SENIOR MANAGERS



Male Female

ETHICS AND BUSINESS CONDUCT

DOING THE RIGHT THING

Chemring is committed to conducting its business in an ethical and responsible manner at all times, and in full compliance with all applicable laws and regulations.

OUR APPROACH

We are committed to promoting a culture within Chemring where everyone does the right thing and takes personal responsibility for their actions. Our Operational Framework and Code of Conduct set out the standards of business conduct and behaviours we expect of all of our businesses, our employees and all third parties who act on our behalf. We require all employees and third parties who act on our behalf to conduct business honestly and with integrity, and to take personal responsibility for ensuring that our commitment to sound and ethical business conduct is delivered.

ETHICS & COMPLIANCE COMMITTEE

The Board has established an Ethics & Compliance Committee, chaired by Carl-Peter Forster, with the other members being the Group Chief Executive, the President of our US operations and the Group Legal Director & Company Secretary. The Committee has oversight of the Group's ethical business conduct and compliance framework, including our anti-bribery processes. It monitors the implementation of the framework across the Group and recommends areas for future improvement.

The Committee met three times during the year. At every meeting the Committee reviews and monitors compliance with our anti-bribery processes and reviews whistleblowing reports received and associated investigations. During the year the Committee also reviewed:

- reports from PwC on their internal audits of the business's compliance with our anti-bribery processes and their review of the implementation of the Chemring Compliance Portal;
- metrics on the due diligence of third party sales partners, service providers and suppliers conducted through the Chemring Compliance Portal;
- reports on the independent audit of selected third party sales partners;
- training material on the Code of Conduct; and
- approvals granted under our policy on sales to customers located in higher risk territories.

The Chairman reports to the Board on the Committee's activities following each meeting.

OPERATIONAL FRAMEWORK

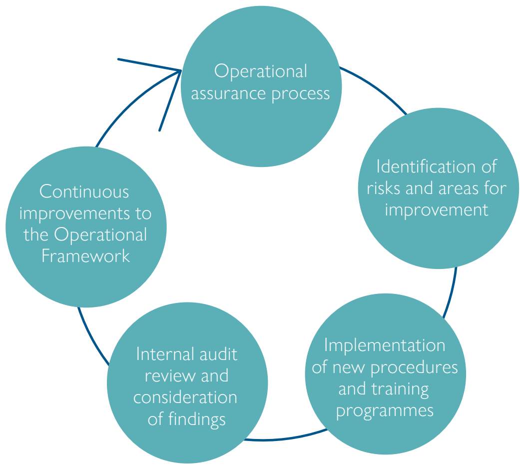
Our Operational Framework incorporates a broad range of more than 35 policies and procedures which have been adopted by all of our businesses. The Operational Framework implements a robust governance and compliance framework to enable us to operate in a safe, consistent and accountable way.

The leaders of each of our businesses are required to ensure that:

- every employee, at every level of the organisation, has access to and understands the requirements of the Operational Framework;
- appropriate training and monitoring processes are in place to ensure proper implementation of the Operational Framework; and
- local procedures and processes are adopted to implement the requirements of the Operational Framework.

All of our Operational Framework policies, procedures and associated training material are hosted on the Chemring Compliance Portal. This innovative online system allows us to issue new and updated policies and training to employees across the Group, targeted to their specific roles, and enables us to monitor completion of mandatory training on a timely basis.

Our governance framework also includes a requirement for all businesses to complete an Operational Assurance Statement on an annual basis, providing a detailed assessment of their compliance with the Operational Framework. The output from the operational assurance process enables us to drive continuous improvement in our governance and compliance framework, including the identification of additional training requirements for our employees. It also allows us to monitor and address the evolution of a number of the key risks we face, and provides valuable input to our internal audit programme.

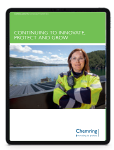


CODE OF CONDUCT

Our Code of Conduct, which sits alongside our Operational Framework, embraces our fundamental values of Safety, Excellence and Innovation. It provides direction to all employees on legal, ethical and risk issues that they may encounter in their day-to-day activities.

All employees and all third parties who act on the Group's behalf are required to comply with our standards of behaviour and business conduct, as set out within the Code, and applicable laws and regulations in all of the countries in which we operate. All employees, current and new, are provided with a copy of the Code of Conduct and asked to confirm that they will adhere to its standards. The Code is reproduced in Norwegian for our employees in Norway.

Updated scenario-based training on the Code was provided to employees during the year.



READ MORE IN OUR SUSTAINABILITY REPORT: CHEMRING.COM/SUSTAINABILITY

WHISTLEBLOWING

Our Chemring culture embraces transparency and openness, and we encourage all employees to speak up if they have any concerns. We have a whistleblowing policy and associated procedures in place which enable all employees to raise concerns, in confidence, about possible improprieties or wrongdoing within the business, without fear of reprisal or retaliation. Employees are able to raise issues by contacting our 24-hour ethics reporting service by phone or email or by accessing an external website. All issues reported are taken seriously and investigated appropriately in a confidential manner. Third parties may also access our ethics reporting services.

Our internal procedures on the handling of whistleblowing reports are designed to ensure that all reports made, whether through the external service or through other internal channels, are dealt with in a proper and consistent manner, with appropriate oversight from the UK and US legal departments. Training is provided to members of our leadership teams on how to identify whistleblowing reports which may emanate through less-obvious channels and how to engage with employees who make whistleblowing reports.

ANTI-BRIBERY AND CORRUPTION

The Group has well established anti-corruption policies, which are included within our Operational Framework. Specifically, these cover bribery and corruption, conflicts of interest, gifts and hospitality, and facilitation payments. A number of other policies within the Operational Framework also address bribery and corruption risks in areas such as finance, political donations and lobbying, charitable donations and offset.

The Group has also adopted a policy on sales to customers located in higher-risk territories, which requires our businesses to prepare a risk mitigation plan for any proposed transaction in a territory rated less than 50 on Transparency International's Corruption Perceptions Index. This plan is required to address both bribery and corruption risks and broader risks which may be encountered in doing business in such territories.

Our detailed anti-corruption procedures are incorporated within our Bribery Act Compliance Manual ("BACM"), which is updated on a regular basis, and includes requirements for:

- each business to routinely conduct informed bribery risk assessments as part of normal operating procedures, to determine the nature and extent of the Group's exposure to potential internal and external risks of bribery and corruption on its behalf by persons associated with it;
- approval of the appointment of all sales partners and other third party advisers, which in all circumstances requires the completion of risk-based due diligence, appropriate management approvals, use of standard form contracts, and ongoing monitoring and review;
- risk-based anti-corruption due diligence processes for the engagement of service providers and suppliers;
- regular mandatory training on BACM and its application to their respective roles for management, supervisors and all employees working within commercial, sales and marketing, finance and human resource functions or in customer-facing roles;
- approval of the giving and receiving of reasonable, proportionate and appropriate gifts and hospitality in the normal course of business; and
- proper identification, disclosure and management of potential or actual conflicts of interest.

A BACM "Pocket Guide" is issued to all employees across the Group, which provides an overview of our anti-corruption policies and the requirements of the detailed manual.

All businesses are required to complete a BACM Compliance Certificate on an annual basis, confirming that all policies and procedures within BACM have been complied with and providing supporting information to demonstrate compliance. BACM Compliance Certificates are reviewed by the Ethics & Compliance Committee following each submission.

We recognise that the appointment of third party sales partners in our routes to market can present particular bribery and corruption risks, and we therefore implement enhanced anti-corruption procedures for the engagement of sales partners where there is a genuine business need by mandating:

- restrictions on the number of sales partners to be engaged in each territory;
- the preparation of a full business case to justify the appointment of all new third party sales partners, including a two-stage bribery risk assessment incorporating the requisite level of risk-based due diligence, which must be approved by the Group Chief Executive before the sales partner is appointed;
- due diligence reports from external consultants for higher-risk appointments;
- a full periodic reappointment process for all retained sales partners, including recommissioning of the appropriate risk-based due diligence and resubmission of a full business case for approval by the Group Chief Executive; and
- increased reporting requirements for all payments made to third party sales partners and higher risk service providers.

The review and approval processes for our third party sales partners are automated through the Chemring Compliance Portal, which enables us to adopt a consistent approach to the application of our due diligence and approval processes across the Group. Due diligence processes for the third party service providers and higher risk suppliers engaged by our non-US businesses are also managed in the Chemring Compliance Portal. The US businesses have adopted a similar automated system for their service providers and higher-risk suppliers.

The Chemring Compliance Portal also incorporates a module for employees to seek approval online prior to giving or receiving gifts and hospitality, or making charitable donations on behalf of the business.

Selected third party sales partners are subject to an independent audit by an external consultant. These audits provide additional assurance on the suitability of our sales partners and help to further strengthen our anti-bribery and corruption processes.

Compliance with BACM procedures continued to be a core aspect of PwC's internal audit programme during the year.

HUMAN RIGHTS

The Group is committed to respecting human rights in the countries in which we do business. Our Code of Conduct and other applicable policies under the Operational Framework support our commitment to ensuring, as far as we are able, that there is no slavery or human trafficking in any part of our business or in our supply chain. All suppliers are provided with a copy of our Supplier Code of Conduct, which requires them to adhere to our ethical standards and expectations, including in relation to human rights. We do not knowingly support or do business with any suppliers who are involved in slavery.

A statement of the Group's compliance with the Modern Slavery Act 2015 can be found on the Group's website at www.chemring.com.

We fully adhere to all relevant government guidelines designed to ensure that our products are not knowingly incorporated into weapons, or other equipment, used for the purposes of terrorism, international repression or the abuse of human rights.

DELIVERING GROWTH, STRONG CASH GENERATION AND FUNDING INVESTMENT

Andrew Lewis
Chief Financial Officer

"Our focus in 2022 has been on adapting to our customers' needs in what has been a changing geopolitical landscape, combined with supply chain challenges, energy price increases, and other inflationary cost pressures."

NET DEBT

£7.2m
(2021: £26.6m)

ORDER BOOK

£651m
(2021: £501m)

We have successfully navigated the changing geopolitical landscape, supply chain challenges and inflationary pressures and delivered a 2022 result which exceeded initial expectations, maintaining the balance of short-term delivery with long-term investment.

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

In the US sensors business there has been a positive start to the full rate production phase of the EMBD program. A customer procurement decision is expected in 2023 on the low rate initial production ("LRIP") phase of the JBTDS and AVCAD programs. The shift in the US Government priorities from counter-insurgency operations to equipping forces for potential peer to peer/near-peer competition in the Pacific, has resulted in a swift and unexpected re-prioritisation of US DoD budgets. This impacted our expected HMDS FY22 delivery order, which was not funded, and we are currently working with the customer to appropriately plan for their expected future requirements as we expect the program to move from production to sustainment earlier than anticipated.

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

GROUP FINANCIAL PERFORMANCE

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

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

GROUP FINANCIAL PERFORMANCE CONTINUED

	At constant currency 2022 £m	At constant currency Change	As reported 2022 £m	As reported Change	2021 £m
Group					
Order intake	**523.1**	+21%	**551.5**	+28%	431.0
Order book	**604.1**	+21%	**650.9**	+30%	500.8
Revenue	**421.2**	+7%	**442.8**	+13%	393.3
Underlying EBITDA	**79.9**	+5%	**82.3**	+8%	76.4
Underlying operating profit	**62.2**	+8%	**64.0**	+11%	57.5
Underlying basic earnings per share	**19.7**	+17%	**20.2**	+20%	16.9
Sensors & Information					
Order intake	**192.3**	+9%	**195.2**	+11%	175.9
Order book	**148.0**	+30%	**153.7**	+35%	113.6
Revenue	**157.8**	+8%	**162.3**	+11%	146.6
Underlying EBITDA	**32.8**	-5%	**33.0**	-4%	34.4
Underlying operating profit	**29.9**	-5%	**30.0**	-5%	31.6
Countermeasures & Energetics					
Order intake	**330.8**	+30%	**356.3**	+40%	255.1
Order book	**456.1**	+18%	**497.2**	+28%	387.2
Revenue	**263.4**	+7%	**280.5**	+14%	246.7
Underlying EBITDA	**61.7**	+10%	**64.2**	+14%	56.1
Underlying operating profit	**46.6**	+17%	**48.9**	+22%	40.0

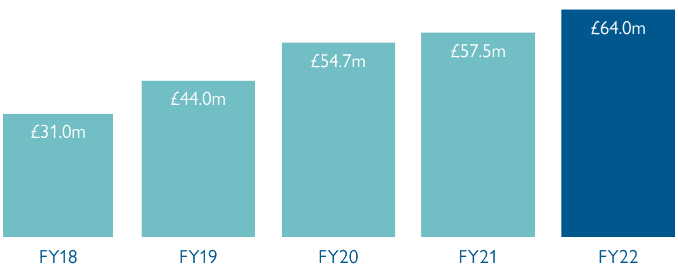
Order intake across the Group increased by 28% to £551m (2021: £431m), with a 59% increase in Roke's order intake, driven by a growing number of multi-year contracts which include an increasing element of "pass-through" products and services which are included in revenue. Countermeasures & Energetics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

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

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

The underlying operating profit of £64.0m (2021: £57.5m) resulted in an underlying operating margin of 14.5% (2021: 14.6%). As a result of the planned investment in Roke operating margin was flat compared to 2021 with the improved operational execution in Countermeasures & Energetics offset by the discretionary operating expense investment in Roke Academy, Roke Futures and Roke USA.

UNDERLYING OPERATING PROFIT (£m)



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

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

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

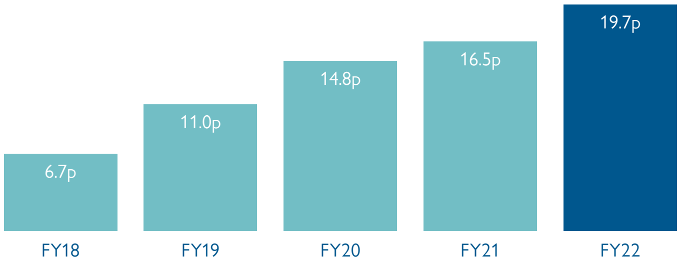
TAX

The underlying tax charge totalled £5.7m (2021: £8.3m) on an underlying profit before tax of £62.5m (2021: £55.9m). The effective tax rate on underlying profit before tax for the year was a charge of 9.1% (2021: 14.8%). The reduction in rate is due to the recognition of a deferred tax asset in respect of future US interest deductions of £4.3m. Looking forward into 2023 we expect the Group effective tax rate to return to the mid-teens as the change to the UK Corporation Tax rate, effective 1 April 2023, will impact the annual current tax charge for seven months. From FY24 we will see a full year effect and as such the Group effective tax rate is expected to increase to approximately 20%. The statutory tax charge totalled £4.4m (2021: £7.3m) on a statutory profit before tax of £51.8m (2021: £48.8m).

EARNINGS PER SHARE

Underlying basic earnings per share was 20.2p (2021: 16.9p) and diluted underlying earnings per share was 19.7p (2021: 16.5p). Statutory basic earnings per share was 16.9p (2021: 14.7p) and statutory diluted earnings per share was 16.4p (2021: 14.4p).

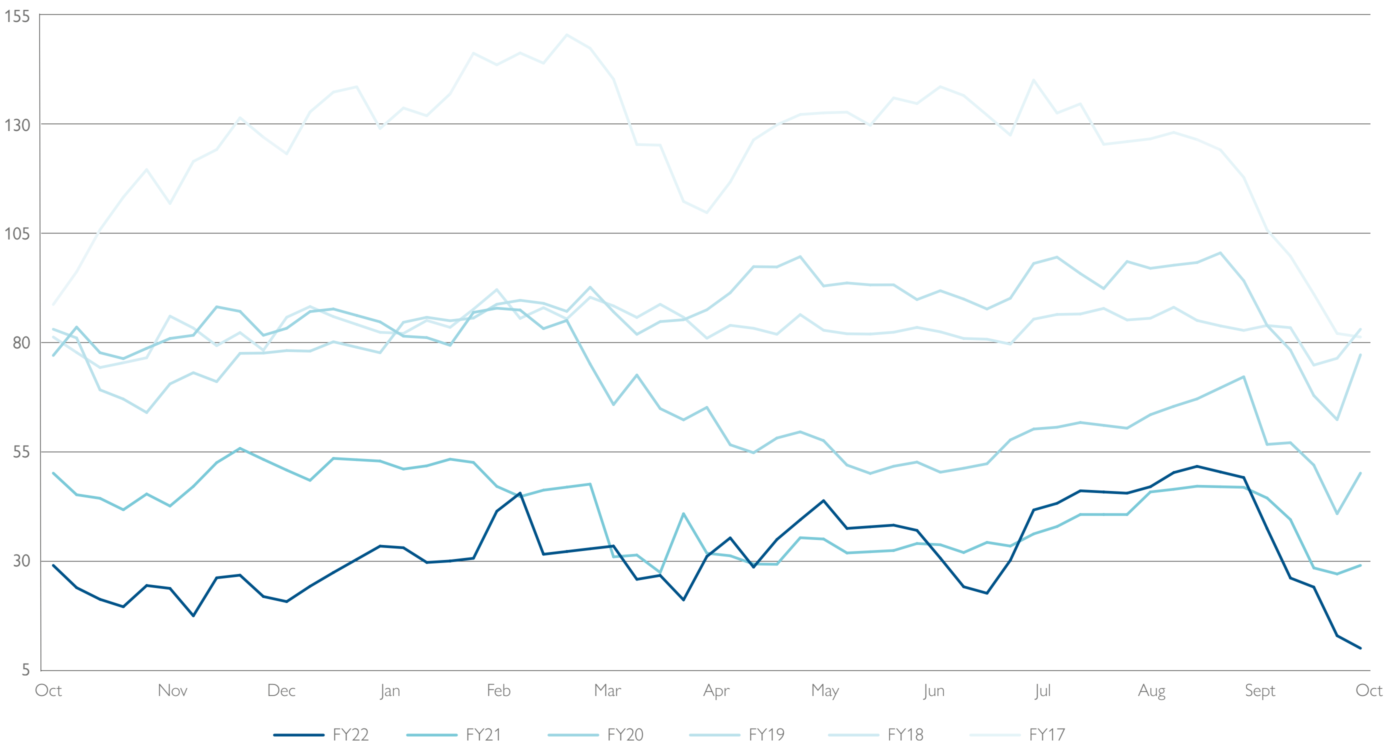
UNDERLYING DILUTED EPS (PENCE)



WORKING CAPITAL

Working capital was £93.9m (2021: £84.4m), an increase of £9.5m. At constant currency, working capital would have been £81.9m. As a percentage of revenue, working capital has remained consistent at 21% at 31 October 2022, and would have fallen to 19% at constant currency. Given global supply chain challenges the Group invested in certain inventory items to mitigate the risk of shortages on production and delivery to customers. We continued with our focus on commercial contracting, inventory levels and cash management. Year-end trade receivable days of 17 (2021: 25) and trade payable days of 18 (2021: 18) demonstrate that working capital has been managed in a balanced and sustainable manner.

WEEKLY NET DEBT (£m)

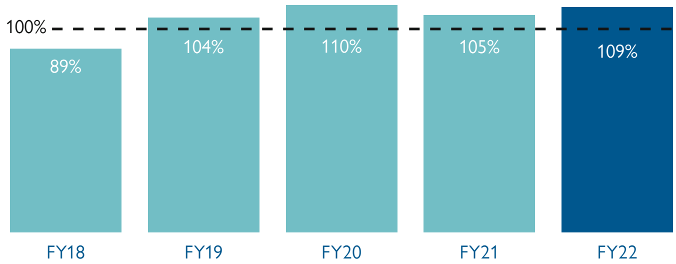


GROUP FINANCIAL POSITION

NET DEBT AND CASH FLOW

The Group's net debt at 31 October 2022 was £7.2m (2021: £26.6m), representing a net debt to underlying EBITDA ratio of 0.09x (2021: 0.35x). The financial health of the Group has continued to improve in a number of aspects during the year. Disciplined working capital practices have been maintained to reduce intra-period volatility. The Group is working to achieve further improvements over the medium term.

UNDERLYING CASH CONVERSION (%)



Underlying operating activities generated cash of £90.1m (2021: £80.0m). Underlying cash conversion was 109% (2021: 105%) of underlying EBITDA, and an average of 108% on a rolling 36-month basis (2021: 107%). The Group has a revolving credit facility of £150m which runs to December 2025 and has an option to extend for a further two years at the lenders' discretion.

DEBT FACILITIES

The Group's principal debt facilities comprise a £150m revolving credit facility and a US$10m overdraft. These were established in July 2021 with a syndicate of six banks and run until December 2025 with two "one-year" options to extend. The Group had £136.7m (2021: £128.1m) of undrawn borrowing facilities at the year end. 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 year.

RETIREMENT BENEFIT OBLIGATIONS

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

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

CONTINGENT LIABILITIES

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

In addition, one matter remained open at year end, being the incident that occurred at the Group's countermeasures site in Salisbury on 10 August 2018. Full details are included in note 33.

CAPITAL EXPENDITURE

The Group continues to invest in the infrastructure of its facilities, with particular focus on enhancing safety and operational performance. In the year £31.5m (2021: £28.0m) was spent on property, plant and equipment. The most significant investment being the Tennessee capacity expansion programme to meet the expected demand for F-35 countermeasures, and a new proofing facility at our Scottish site which has continued during the period. We still expect to generate revenue from the new Tennessee facility during the first half of our 2023 financial year.

RESEARCH AND DEVELOPMENT

R&D expenditure was £79.7m (2021: £62.0m). Continued investment in R&D is a key aspect of the Group's strategy, and levels of internally funded R&D are expected to be maintained as investment in product development continues, particularly within Sensors & Information. An analysis of R&D expenditure is set out below:

	2022 £m	2021 £m
Customer-funded R&D	**69.7**	51.4
Internally-funded R&D:		
– expensed to the income statement	**7.5**	8.5
– capitalised	**2.5**	2.1

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, underlying operating cash flow and underlying cash conversion. In addition, EBITDA, net debt, underlying operating profit and revenue on a constant currency basis 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 for planning, budgeting and reporting purposes and for its internal assessment of the operational performance of individual businesses.

	2022 £m	2021 £m	Growth %
Revenue (as reported)	**442.8**	393.3	13%
Effect of using prior period foreign exchange rates	**(21.6)**		
Revenue at constant currency	**421.2**	393.3	7%
Underlying operating profit (as reported)	**64.0**	57.5	11%
Effect of using prior period foreign exchange rates	**(1.8)**		
Underlying operating profit at constant currency	**62.2**	57.5	8%

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

	2022			2021		
	Underlying	Non-underlying	Statutory	Underlying	Non-underlying	Statutory
Group:						
EBITDA (£m)	**82.3**	**(6.1)**	**76.2**	76.4	(0.9)	75.5
Operating profit (£m)	**64.0**	**(10.7)**	**53.3**	57.5	(7.1)	50.4
Profit before tax (£m)	**62.5**	**(10.7)**	**51.8**	55.9	(7.1)	48.8
Tax charge (£m)	**(5.7)**	**1.3**	**(4.4)**	(8.3)	1.0	(7.3)
Profit after tax (£m)	**56.8**	**(9.4)**	**47.4**	47.6	(6.1)	41.5
Basic earnings per share (pence)	**20.2**	**(3.3)**	**16.9**	16.9	(2.2)	14.7
Diluted earnings per share (pence)	**19.7**	**(3.3)**	**16.4**	16.5	(2.1)	14.4
Sectors:						
Sensors & Information EBITDA (£m)	**33.0**	**(1.2)**	**31.8**	34.4	(1.6)	32.8
Sensors & Information operating profit (£m)	**30.0**	**(3.7)**	**26.3**	31.6	(5.7)	25.9
Countermeasures & Energetics EBITDA (£m)	**64.2**	**—**	**64.2**	56.1	—	56.1
Countermeasures & Energetics operating profit (£m)	**48.9**	**(2.1)**	**46.8**	40.0	(2.1)	37.9

We present a measure of constant currency revenue and operating profit. This is calculated by translating our results for the year ended 31 October 2022 at the average exchange rates for the comparative year ended 31 October 2021.

The Group manages its finance costs and tax on a central or regional basis and therefore the Board believes the use of underlying operating profit or EBITDA is the best way of monitoring the performance of operating businesses. The strategic report includes both statutory and adjusted measures, the latter of which, in management's view, reflects how the business is managed and measured on a day-to-day basis. Our APMs and KPIs are aligned to our strategy and together are used to measure the performance of our business and form the basis of the performance measures for remuneration. Adjusted results exclude certain items because, if included, these items could distort the understanding of our performance for the year and the comparability between the periods.

Management considers non-underlying items to be:

- amortisation of acquired intangibles;
- discontinued operations;
- exceptional items, for example relating to acquisitions and disposals, restructuring costs, impairment charges and legal costs;
- 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 year figures. 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. All profit and earnings per share figures in this strategic report relate to underlying business performance (as defined above) unless otherwise stated. Further details are provided in note 3.

The adjustments comprise:

- amortisation of acquired intangibles of £4.6m (2021: £6.2m);
- costs relating to acquisitions including deferred consideration treated as an expense under IFRS 2 of £2.0m (2021: £1.6m);
- loss on the movement in the fair value of derivative financial instruments of £4.1m (2021: £0.7m gain); and
- tax impact of adjustments of £1.3m credit (2021: £1.0m credit).

Andrew Lewis
Chief Financial Officer
13 December 2022

RISK MANAGEMENT

MANAGING RISK

We continue to manage key risks to ensure the delivery of the Group strategy.

RISK MANAGEMENT ORGANISATION

The Board is responsible for determining the nature and extent of risks it is willing to accept in delivering the Group's strategy and running the Group's operations, and ensuring that risks are effectively managed across the Group.

The Board reviews the Group risk register on a regular basis and considers whether the Risk Management Committee has appropriately identified the principal risks to which the Group is exposed.

The Audit Committee is responsible for reviewing in detail the effectiveness of the Group's systems of internal control, including financial, operational and compliance controls, and its risk management systems. The Audit Committee also reviews the effectiveness of the Group's internal audit arrangements.

The Risk Management Committee is responsible for overseeing the implementation of the Group's risk management framework and is also responsible for identifying the principal risks to which the Group is exposed, monitoring key mitigation plans and maintaining the Group risk register. The Risk Management Committee also reviews the business unit risk registers on a regular basis and considers input from the US Risk Management Committee, which has been constituted to oversee risk within the US operations.

The current members of the Risk Management Committee are:

- Michael Ord (Group Chief Executive);
- Bill Currer (President, US);
- Sarah Ellard (Group Legal Director & Company Secretary);
- Andrew Lewis (Chief Financial Officer); and
- Steven Messam (Group HSE Director).

RISK MANAGEMENT POLICY AND FRAMEWORK

The Group's risk management policy sets out the Group's approach to risk management, including its risk appetite; the framework for assessing, managing and monitoring risk within the business; and the key roles and responsibilities for the oversight and implementation of the Group's risk management systems and controls.

The Group's risk management framework draws fundamentally from the "Three Lines of Defence Methodology", with the "First Line" being day-to-day management of risk and maintenance of effective control procedures at individual businesses. The "Second Line" comprises various risk management and control functions established at the corporate management level, which are designed to enhance and monitor the First Line. The "Third Line" comprises the Group's internal audit function, utilising an external firm of auditors, which reports directly to the Audit Committee.

APPROACH TO RISK MANAGEMENT

The management of each business is responsible for the identification, management and reporting of local risks, in accordance with the Group's risk management framework. The management of each business is also responsible for the maintenance of business risk registers and the implementation of mitigation plans.

Each business is required to maintain a risk register identifying their key risks. The risk registers include an analysis of the likelihood and impact of each risk, before and after mitigation actions are taken to manage the risk, together with details of the mitigation plans and progress against them. Each risk is allocated an owner, who has responsibility for managing the risk.

The business risk registers are updated locally on a quarterly basis and are reviewed in detail by the Group Chief Executive, the Chief Financial Officer and other members of the Executive Committee at quarterly business review meetings with each of the businesses. The US Risk Management Committee also reviews the risk registers for the US businesses, considers US corporate-level risks and maintains a consolidated US risk register.

KEY ROLES AND RESPONSIBILITIES FOR THE GROUP'S RISK MANAGEMENT STRATEGY

BUSINESS MANAGEMENT

- Responsible for the implementation of the Group's risk management framework at the operational level
- Maintains business unit risk registers and provides input to the Risk Management Committee
- Responsible for compliance with internal controls

RISK MANAGEMENT COMMITTEE

- Oversees the implementation of the Group's risk management framework
- Monitors compliance with the Group's internal control systems
- Maintains the Group risk register

AUDIT COMMITTEE

- Reviews the effectiveness of the Group's risk management framework and systems of internal control
- Oversees the effectiveness of the Group's internal audit arrangements

THE BOARD

- Overall responsibility for risk management
- Defines the Group's risk appetite

The Risk Management Committee meets quarterly and, utilising the input from the business risk registers and the US risk register, identifies those principal risks which are material to the Group as a whole. The Risk Management Committee also considers corporate-level risks and emerging risks, as referenced below. These risks are collated on the Group risk register, together with details of the applicable mitigation plans and risk owners.

The Group has implemented an Operational Framework, incorporating a broad range of policies and procedures which are required to be adopted by all businesses. A half-yearly operational assurance process is a fundamental part of the Operational Framework and provides an assessment of compliance with the Operational Framework policies across the Group. The output of the operational assurance process provides additional visibility on risks across the Group and is utilised by the Risk Management Committee as a further input to the Group risk register. The operational assurance process also provides assurance to the Board that the Group's internal systems and controls are operating effectively.

The full Group risk register is reviewed by the Board on a half-yearly basis and key individual risks are reviewed at every Board meeting.

KEY AREAS OF FOCUS DURING THE YEAR

During the past year, we have continued to enhance our risk management systems, with specific focus in the following areas:

- Our HSE Management Framework has been updated and we have implemented new Group-wide protocols on shared learning, management of electrostatic discharge and the management of travel risk.
- We have further enhanced our HSE data collection and reporting through our EcoOnline system.
- Additional IT and cyber-security standards have been implemented, and members of the senior leadership team participated in a cyber incident scenario planning workshop.
- We have improved our succession and talent management programmes to address increasing resource demand and constraints.
- We have established a new project focused on improving business continuity management across the Group.
- Climate change risks have been considered as key risks to the future operation of the Group.
- Our internal audit programme has continued to incorporate thematic reviews in key risk areas.

Our risk management systems were reviewed by PwC in 2021 as part of the internal audit programme. PwC concluded that our risk management structures and processes were fit for purpose and a number of good practice areas were identified. Their recommendations for further enhancements to our risk rating methodologies were addressed during the year by the introduction of an expanded five-by-five matrix for the assessment of the potential impact and likelihood of individual risks on the Group risk register. We have also introduced a target risk rating for each risk, and now separately consider key mitigation controls and ongoing risk reduction actions. These changes provide greater distinction between relative risks and have enabled us to better facilitate the prioritisation of key mitigation actions.

PRINCIPAL RISKS

The current Group risk register comprises risks in seven key risk areas, covering health, safety and environment risks, strategic risks, financial risks, operational risks, people risks, legal and compliance risks, and reputational risks. Details of the principal risks are set out on pages 66 to 73.

CV-19

The management of risks associated with CV-19 continued to be monitored during the year. Whilst the Group's operations have not been significantly impacted by CV-19, we have continued to take all appropriate actions to protect and safeguard our employees, and ensure continuity of our businesses.

EMERGING RISKS

The current UK Corporate Governance Code requires the Board to undertake a robust assessment of the emerging risks that may impact the Group in the future. This requirement has been reflected in the Group's risk management processes and emerging risks are considered by the Risk Management Committee when compiling the Group risk register.

Emerging risks are identified through discussions with both external and internal subject matter experts and other stakeholders, including customers and regulators, and through horizon scanning of future developments in areas relevant to the Group's business operations.

Certain emerging risks relating to future technological, regulatory and macro-economic changes are reflected on the Group risk register and mitigation plans implemented accordingly. However, other emerging risks have also been identified, where we are still endeavouring to determine the potential impact on the Group.

RISK REVIEW

The Board carries out an annual review of the effectiveness of the Group's systems of internal control and risk management systems. In understanding this review, the Board considers:

- the operational and financial reports received from the executive management throughout the year;
- the Group risk register and the mitigation actions being taken to manage key risks;
- output from the operational assurance process; and
- internal audit reports and reports from the other assurance processes in place across the Group.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the principal risks faced by the business, and that robust systems of internal control and risk management were in place throughout the year under review and have remained in place up to the date of approval of these financial statements.

The Board acknowledges that the internal control systems can only provide reasonable, not absolute, assurance against mismanagement or loss of the Group's assets. The Board therefore continues to take steps to embed internal control and risk management further into the operations of the Group, and to address any areas for potential improvement which come to the attention of management and the Board.

The Board carried out an assessment of the principal and emerging risks to which the Group is exposed as part of its half-yearly review of the Group risk register. The Board considered whether all applicable risks had been adequately captured in the Group risk register and whether the requisite progress had been made on the mitigation actions to address significant risks.

PRINCIPAL RISKS AND UNCERTAINTIES

RISK MANAGEMENT IN ACTION

Details of the principal risks and uncertainties which could have a material impact on the Group's business model, strategy, future performance or reputation are set out below. The principal risks are identified by the Risk Management Committee based on the likelihood of occurrence and the potential impact on the Group as a whole.

In addition to the risks disclosed below, the Risk Management Committee also monitors and manages a wide range of other risks to which the Group may be exposed.

OVERVIEW OF PRINCIPAL RISKS

The table below summarises the Group's principal risks and uncertainties, and identifies how each links to values and our strategic objectives, and whether the trend in the risk profile from the Group's perspective increased, decreased or remained stable during the year.

Principal risk/uncertainty	Our values	Strategic objectives	Change in risk profile in the year
A Occupational and process safety	Safety, Excellence, Innovation	Target growing segments, Win market share	↓
B Environmental laws and regulations	Safety, Excellence	Target growing segments	↑
C Climate change	Safety, Excellence, Innovation	Target growing segments	↑
D Market	Safety, Excellence, Innovation	Target growing segments, Win market share, Grow our US business	↓
E Political	Excellence	Target growing segments, Win market share, Grow our US business	↑
F Contracts	Excellence, Innovation	Target growing segments, Win market share, Grow our US business	↓
G Technology	Excellence, Innovation	Target growing segments, Win market share, Grow our US business	↔
H Financial	Safety, Excellence	Target growing segments, Win market share, Grow our US business	↓
I Operational	Safety, Excellence, Innovation	Target growing segments, Win market share, Grow our US business	↔
J People	Safety, Excellence, Innovation	Target growing segments, Win market share, Grow our US business	↑
K Compliance and corruption	Safety, Excellence, Innovation	Target growing segments, Win market share	↓
L Cyber-security	Safety, Excellence, Innovation	Target growing segments, Win market share	↑

Target growing segments
Win market share
Grow our US business

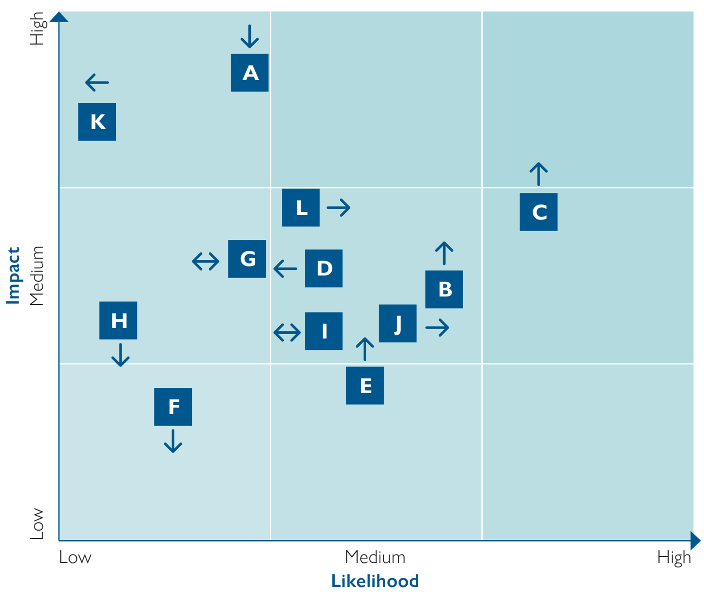
Safety
Excellence
Innovation

RISK PROFILE AND HEAT MAP

The overall risk profile for the Group continued to improve during the year and the Group risk register reflects the following changes to principal risks:

- Our understanding of the risks associated with occupational and process safety continues to improve, reflecting further progress on the implementation of the Group's three-year HSE strategy and an increased focus on asset integrity, and shared learning and reporting of near misses within our operations.
- Risks associated with environmental issues have increased with the increased focus on the environmental impact of our businesses.
- Climate change risks and the potential impact of changed weather patterns on our operations are now included as principal risks on the Group risk register.
- Market-related risk has reduced, reflecting the increased focus on defence spending as a result of the recent geopolitical and technology trends.
- People-related risk in relation to resourcing has continued to increase as a result of buoyant demand in certain parts of the employment market continuing to make it difficult to recruit and retain employees, and increased salary expectations in a high-inflationary environment.
- Financial risks have continued to reduce, reflecting the Group's strong cash generation and lower levels of indebtedness, albeit cost escalation and inflation are increasing financial risk in some areas.
- The inherent risk associated with cyber threats and system failures continues to increase, acknowledging that the continuing changes in the nature of cyber attacks and the increased sophistication of the methods employed are an increasing risk for all businesses.

The heat map below illustrates the relative inherent and residual positioning of our principal risks from an impact and likelihood perspective.



INHERENT RISK: High Medium Low

TREND: Increasing Stable Decreasing

HEALTH, SAFETY AND ENVIRONMENT RISKS

A. OCCUPATIONAL AND PROCESS SAFETY

Risk and potential impacts

The Group's operations involve energetic materials that by their nature have inherent safety risks.

- Incidents may occur which could result in harm to employees, the temporary shutdown of facilities or other disruption to manufacturing processes.
- The Group may be exposed to financial loss, regulatory action and potential liabilities for workplace injuries and fatalities.

Mitigation actions/factors

- Safety reinforced as a core value.
- Continued emphasis on the "Journey to Zero Harm" and promotion of a culture which puts safety first and encourages employees to take personal responsibility for their actions.
- HSE Strategy and HSE Management System Framework Standard fully implemented within the businesses.
- Robust major accident hazard analysis process adopted across the Group.
- Asset integrity review completed using external consultants at higher-hazard sites and new asset integrity standard adopted.
- New Group-wide standard on management of electro-static discharge hazards introduced.
- Incident investigation and crisis management standards adopted.
- Process established for Group-wide review of learnings from significant incidents.
- Occupational Health, Safety and Wellbeing and Technical Safety Committees established.
- "Spot it, Stop it, Share it" campaign instigated to increase focus on near miss identification and reporting.
- Continued programme of capital investment in older facilities to improve safety and reliability.

Inherent risk: High. Trend: Decreasing.

Risk appetite: Low

Change during the year and outlook

Through the implementation of our major accident hazard review process, together with increased reporting and investigation of process upset conditions, we continue to take further actions to reduce the likelihood of a major energetic event. In addition, we have strengthened our asset integrity programmes and introduced an enhanced process for sharing of learnings from significant incidents. We continue to invest in new automated production systems and improving process controls for our legacy operations.

Our total recordable injury frequency rate has increased slightly from 0.67 in 2021 to 0.78 in 2022, but remains below our limit of 1.0. There were no injuries sustained from energetic ignitions during the year, compared to two such incidents in the prior year.

We hope to see further improvements in process safety in FY23 as we continue with our capital investment programme.

Example key risk indicators

- Total recordable injury frequency rate
- Number of process safety events
- Number of near miss reports

Link to values

Link to strategy

- Target growing segments
- Win market share

See also: Health and safety on pages 40 to 41

B. ENVIRONMENTAL LAWS AND REGULATIONS

Risk and potential impacts

The Group's operations and ownership or use of real property are subject to a number of federal, state and local environmental laws and regulations. At certain sites currently or formerly owned or operated by the Group, there is known or potential contamination for which there is, or may be, a requirement to remediate or provide resource restoration.

- The Group could incur substantial costs, including remediation costs, resource restoration costs, fines and penalties, or be exposed to third party property damage or personal injury claims, as a result of liabilities associated with past practices or violations of environmental laws or non-compliance with environmental permits.

Mitigation actions/factors

- Monitoring programmes established at certain sites and appropriate financial provisions held.
- Environmental liability insurance procured for certain risks.
- Environmental consultants retained to manage legacy indemnification obligations for site remediations.
- Sustainability and Environmental Committees established.

Inherent risk: Medium. Trend: Increasing.

Risk appetite: Low

Change during the year and outlook

The sale or closure of several sites during the last few years has reduced the Group's overall exposure to environmental risks. However, we retain a financial liability for environmental remediation of certain sites formerly owned by the Group, most notably those occupied by the divested munitions businesses in Belgium and Italy.

Environmental risks continue to increase with the increased focus on climate change and the environmental impact of all businesses. We have implemented a more centralised approach to the management of our environmental performance as part of our ESG strategy, recognising that minimising our environmental impact and addressing climate change-related risks is becoming increasingly important.

Example key risk indicators

- Carbon emissions
- Energy and water utilisation
- Volume of waste produced
- Number of environmental incidents

Link to values

Link to strategy

- Target growing segments

See also: Environment on pages 42 to 44

HEALTH, SAFETY AND ENVIRONMENT RISKS continued

C. CLIMATE CHANGE

Risk and potential impacts

The Group's operations and delivery of our strategy could be impacted by climate change related risks, including those associated with wildfires, severe weather events and new climate-related requirements in relation to the Group's manufacturing processes and products.

- Wildfires and severe weather events could result in harm to employees, the temporary shutdown of facilities or other disruption to manufacturing processes.
- The Group may be exposed to financial loss for business interruption and/or increased expenditure for adapting its production facilities and processes to address climate change-related risks.

Mitigation actions/factors

- Additional measures have been implemented, such as cutting back grassland close to manufacturing operations, to mitigate the risk of wildfires.
- Drainage has been improved on certain sites to mitigate the impact of potential flooding events.
- Carbon reduction plans and other environmental performance targets have been established to reduce the Group's environmental impact.
- Close relationships are maintained with customers, which should provide early insight into new environmental requirements which are to be imposed by customers.

Risk appetite: Low

Change during the year and outlook

Sustainability Committee established which is overseeing the identification and management of climate change and environmental risks.

Carbon reduction plans established across the Group.

Example key risk indicators

- Wildfires
- Severe weather events
- Technology

Link to values

Link to strategy

- Target growing segments

See also: Environment on pages 42 to 44
TCFD report on pages 45 to 49

STRATEGIC RISKS

D. MARKET

Risk and potential impacts

Defence spending depends on a complex mix of political considerations, budgetary constraints and the requirements of the armed forces to address specific threats and perform certain missions. Overall defence spending may therefore be subject to significant yearly fluctuations and there may also be downward pressure on defence budgets in certain key programme areas.

The Group's profits and cash flows are dependent, to a significant extent, on the timing of award of defence contracts. In general, the majority of the Group's contracts are of a relatively short duration and, with the exception of framework contracts with key customers, do not cover multi-year requirements.

- The Group's financial performance may be adversely impacted by lower defence spending by its major customers, either generally or in relation to certain programmes.
- Short-term trading and cash constraints may impact on the Group's ability to invest in longer-term technologies and capabilities.
- Unmitigated delays in the receipt of orders or cancellation of existing contracts could affect the Group's financial performance. If the Group's businesses are unable to continue trading profitably during periods of lower order intake, financial performance will deteriorate and assets may be impaired.

Mitigation actions/factors

- Continual assessment of alignment of planned organic growth strategies and technology roadmaps against government priorities for future funding.
- Increased focus on the development of commercial products and services.
- Focus on organisational development to ensure the business is appropriately structured to meet current and future needs, and to provide resilience in difficult market conditions.
- Continued focus on order intake as a key performance indicator.
- Pursuit of long-term, multi-year contracts with major customers wherever possible.
- Global business development initiatives established in the Countermeasures & Energetics and Sensors & Information segments.
- Increased collaboration between businesses across the Group on establishing shared routes to market.

Risk appetite: Low to moderate

Change during the year and outlook

Ongoing conflict in Eastern Europe is shaping the threat environment, with a resurgence in demand for classical kinematic capabilities, alongside the growing information advantage and intelligence requirements. However, economic pressures may place defence spend under pressure.

Example key risk indicators

- Defence budget cuts/changes
- Reductions in order intake
- Deterioration in profitability

Link to values

Link to strategy

- Target growing segments
- Win market share
- Grow our US business

See also: Market overview on pages 12 to 13

INHERENT RISK: High Medium Low

TREND: Increasing Stable Decreasing

STRATEGIC RISKS

E. POLITICAL

Risk and potential impacts

The Group is active in several countries that are suffering from political, social and economic instability. In addition, there is a significant risk of political unrest and changes in the political structure in certain non-NATO countries to which the Group currently sells.

- The Group's business in certain countries may be adversely affected in a way that is material to the Group's financial position and the results of its operations.
- Political changes could impact future defence expenditure strategy and the Group's ability to export products to certain countries.

Mitigation actions/factors

- Relationships maintained at political level in key countries and with senior customer representatives.
- Financing arrangements implemented, including letters of credit and advance payments, for contracts with high-risk customers.
- Political risks insurance procured in certain circumstances.
- Continued focus on the development of commercial business across the Group, particularly in key home territories.

Risk appetite: Low to moderate

Change during the year and outlook

Political tensions across the world are increasing the risk of disruption in our non-NATO markets.

We have continued to focus our business development and sales and marketing activities on our home markets and their allied countries.

Example key risk indicators

- Political changes
- Suspension/withdrawal of export licences
- Trade embargoes
- Reductions in order intake

Link to values

Link to strategy

- Target growing segments
- Win market share
- Grow our US business

See also: Market overview on pages 12 to 13

F. CONTRACTS

Risk and potential impacts

The Group's government contracts may be terminated at any time and may contain other unfavourable provisions.

The Group may need to commit resources in advance of contracts becoming fully effective, to ensure prompt fulfilment of orders or to enable conditions precedent to be met.

- The Group may suffer financial loss if its contracts are terminated by customers, or a termination arising out of the Group's default may have an adverse effect on its ability to re-compete for future contracts and orders.
- Unfavourable commercial contract terms may adversely impact the Group's working capital position, particularly if the receipt of payments by the Group is delayed.

Mitigation actions/factors

- The Commercial Policy within the Operational Framework requires central approval for certain contractual risk exposures.
- Commercial and contract risk management training programme implemented.
- Stage payments negotiated with customers wherever possible, in order to improve working capital management.

Risk appetite: Moderate

Change during the year and outlook

The implementation of the Operational Framework has significantly increased our visibility on commercial and contracting practices across the Group, and is enabling us to manage contractual risk exposures more effectively.

Example key risk indicators

- Number of contract claims/terminations
- Increase in working capital
- Delays in customer payments
- Number of bonds or guarantees called

Link to values

Link to strategy

- Target growing segments
- Win market share
- Grow our US business

STRATEGIC RISKS continued

G. TECHNOLOGY

Risk and potential impacts	Mitigation actions/factors	
The Group may fail to maintain its position on key future programmes due to issues with capability development, technology transfer or cost-effective manufacture. The Group needs to continually add new products to its current range, through innovation and continuing emphasis on research and development. New product development may be subject to delays, or may fail to achieve the requisite standards to satisfy volume manufacturing requirements and the production of products against high reliability and safety criteria to meet customer specifications. - Failure to obtain production contracts on major development programmes may significantly impact the future performance and value of individual businesses. - Failure to complete planned product development and upgrades successfully may have financial and reputational impacts, and may result in obsolescence or loss of future business.	- Close relationships maintained with customers on all key future programmes. - New Product Development Policy and procedures adopted, to align the approach to future technology investment across the Group. - Technology investments aligned with the five-year plan. - Working groups established to drive and co-ordinate technology growth in certain key areas within Countermeasures & Energetics and Sensors & Information.	Risk appetite: Moderate **Change during the year and outlook** Innovation is one of our core values. Progressing our technology-led key development programmes will continue to be a significant area of focus for the year ahead. Roke continues to see strong growth in its R&D service activities. In 2022 we launched the Futures business unit to focus on capturing the growing opportunities for Roke's capabilities in the commercial sector. Chemring Sensors & Electronics Systems in the US has successfully transitioned three laboratory technologies into prototype products which can detect and identify biological threats quicker and cheaper than existing systems.

Example key risk indicators	Link to values	Link to strategy
- Reduction in R&D expenditure - Delays in R&D programmes - Delays in qualification of products - Loss of production contracts - Emergence of new competitors and disruptive technologies		- Target growing segments - Win market share - Grow our US business

H. FINANCIAL

Risk and potential impacts	Mitigation actions/factors	
The Group is exposed to a range of financial risks, both externally driven, such as an unexpected movement in foreign exchange rates or increased inflation, and specific to the Group. Specific financial risks could arise out of a disruption to operations; failure to deliver strategic objectives, including planned investment; or customer-related events, including defaults on the payment of debts. As a result of a number of past events, the Group is exposed to a number of contingent liabilities which may or may not result in future cash outflows. (Further details are contained in note 33 of the Group financial statements.) The Group may also face an increased funding requirement for its legacy UK defined benefit pension scheme. - The Group may fail to comply with financing covenants and be unable to meet debt repayments, leading to withdrawal of funding or additional costs of maintaining funding. - Operational results may be impacted by unexpected financial losses or increased costs. Further details of the financial risks to which the Group is potentially exposed and the mitigating factors are set out in the financial review and note 20 of the Group financial statements.	- Committed banking facilities in place to December 2025. - Regular monitoring of actual and forecast financing covenants. - Capital approval processes in place, requiring Board approval for significant projects. - Hedging policy applied for significant foreign transactions. - Energy bought forward in the UK and Norway to mitigate escalating prices. - Advance payments and letters of credit required from customers with a heightened payment risk. - Close dialogue maintained with the trustees of the pension scheme on investment and funding matters.	Risk appetite: Moderate **Change during the year and outlook** The Group's revolving credit facilities were extended during the year to December 2025. The year-end bank covenant of net debt: EBITDA was 0.14x, well within the covenant limit of 3.0x. The Group's businesses faced inflationary cost increases during the year and higher energy prices. These were largely mitigated but could have a further impact in 2023. At the year end, the legacy UK defined benefit pension scheme was £11.2m in surplus (on an IAS 19 basis). The triennial actuarial valuation of the scheme was carried out as at April 2021 and confirmed that the scheme was £3.8m in surplus at that date. No further contributions will therefore be required before the next valuation as at April 2024.

Example key risk indicators	Link to values	Link to strategy
- Deterioration in bank covenants - Increase in net debt - Interest rate increases - Foreign exchange rate movements - Increase in bad debts - Increase in inflation		- Target growing segments - Win market share - Grow our US business **See also: Financial review on page 59**

INHERENT RISK: High Medium Low

TREND: Increasing Stable Decreasing

STRATEGIC RISKS

I. OPERATIONAL

Risk and potential impacts

The Group's manufacturing activities may be exposed to business continuity risks, arising from plant failures, supplier interruptions, quality issues or large scale employee absences.

Planned new facility developments may be delayed as a result of operational issues.

- Interruptions to production and sales could result in financial loss, reputational damage and loss of future business.
- A delay in completing new manufacturing facilities could constrain capacity and limit future business growth.

Mitigation actions/factors

- Major accident hazard analysis process and upset condition management standard implemented across the Group.
- Key performance indicators adopted, to provide better visibility on operational performance and to facilitate early identification of potential production and quality issues.
- Advance purchases made of raw materials where potential supply chain constraints are identified.
- Business continuity plans established across the Group.
- Continued capital investment in legacy facilities to improve safety and reliability.
- Asset integrity programme implemented.
- Detailed plans developed for all significant capital investment projects and additional dedicated resource employed to oversee key projects.
- CV-19 Playbook implemented and supply chains being actively managed to minimise the impact of CV-19-related disruption.
- Business interruption risks insured where appropriate.

Risk appetite: Low to moderate

Change during the year and outlook

A multi-year capital investment programme was initiated in 2019. This is designed to mitigate a number of operational risks through a plant automation and modernisation programme across the Group. We have also implemented a Group-wide asset integrity programme to improve the resilience of our operations.

Commissioning of the new automated manufacturing facilities in Tennessee has progressed in line with plan.

Capital investment projects progressed at our facilities in Scotland and Norway, and further projects are planned for 2023.

Example key risk indicators

- Number of process safety events
- Reduction in right first time and on-time delivery rates
- Increase in supplier-related delays
- Increase in quality issues and customer complaints
- Reduction in capital expenditure
- Delays in commissioning of facilities

Link to values

Link to strategy

- Target growing segments
- Win market share
- Grow our US business

See also: Group Chief Executive's review and health and safety on pages 14 and 40

STRATEGIC RISKS continued

J. PEOPLE

Risk and potential impacts

There is a risk that the market for talent in key areas of expertise becomes more challenging. Allied to this there is a risk of loss of key personnel.

As the shape of the Group's business changes and with an increased focus in high technology areas, the Group may fail to build and retain an appropriate skill base to facilitate successful competition in new markets and product areas.

Employees may not be fully engaged with the Chemring journey, purpose, products, customers and values.

- Failure to recruit sufficient suitably qualified personnel in key areas of the business may result in the Group failing to achieve its future growth aspirations.
- Failure to build and retain key skills will lead to a reduction in the ability to innovate or to win and deliver new contracts.
- If key personnel are not fully engaged with the business purpose, values and products, and are not appropriately incentivised, the ability of the Group to retain them will be compromised. This could result in loss of management expertise and knowledge, and the Group's operations may suffer as a consequence.

Mitigation actions/factors

- Chemring values of Safety, Excellence and Innovation established.
- Development framework implemented across the Group, focusing on developing management and leadership skills and behaviours particularly amongst our line manager and supervisor population.
- Ongoing review of capability requirements against the business strategy.
- Increased focus on DE&I.
- Culture review completed, facilitating the development of a framework to support the evolution of the Chemring culture.
- Employment Voice real-time engagement tool deployed across the Group.
- Talent framework and succession planning process implemented.
- Incentive arrangements enhanced to encourage collaboration and create a Group focus at senior level.

Risk appetite: Moderate

Change during the year and outlook

Resourcing challenges continued to increase during the year, particularly in parts of the US where buoyant demand in the employment market made it more difficult to recruit and retain employees.

Salary inflation impacted a number of our businesses and one-off cost-of-living payments were made to a number of employees across the Group.

We continued to make good progress on the implementation of our development framework during the year, with over 340 line managers and supervisors having participated in a structured development programme.

We also continue to focus on communications using a wide range of formal and informal challenges, both at the corporate level and within individual businesses.

The deployment across the Group of Employee Voice enables us to monitor employee sentiment on a continuous basis and gives employees the ability to provide feedback on changes as they occur.

Example key risk indicators

- Diversity statistics
- Increase in employee turnover
- Number of unfilled vacancies
- Employee sentiment scores

Link to values

Link to strategy

- Target growing segments
- Win market share
- Grow our US business

See also: Our people on pages 50 to 56

INHERENT RISK: High Medium Low

TREND: Increasing Stable Decreasing

LEGAL AND COMPLIANCE RISKS

K. COMPLIANCE AND CORRUPTION

Risk and potential impacts

The Group operates in over 50 countries worldwide, in a highly regulated environment, and is subject to the applicable laws and regulations of each of these jurisdictions. The Group must ensure that all of its businesses, its employees and third parties providing services on its behalf comply with all relevant legal and regulatory obligations. The nature of the Group's operations could also expose it to government and regulatory investigations relating to safety and the environment, import-export controls, money laundering, false accounting, and corruption or bribery.

The Group requires a significant number of permits, licences and approvals to operate its business, which may be subject to non-renewal or revocation.

- Non-compliance could result in administrative, civil or criminal liabilities, and could expose the Group to fines, penalties, suspension or debarment, and reputational damage.
- Loss of key operating permits and approvals could result in temporary or permanent site closures, and loss of business.

Mitigation actions/factors

- Ethics & Compliance Committee established to oversee compliance across the Group.
- Operational Framework in place, mandating compliance with a range of policies and procedures covering a wide range of legal and regulatory requirements.
- Half-yearly operational assurance process established as part of the Operational Framework.
- Central legal and compliance function assists and monitors all Group businesses, supported by dedicated internal legal resource in the US.
- Code of Conduct stipulates the standards of acceptable business conduct required from all employees and third parties acting on the Group's behalf.
- Updated Bribery Act Compliance Manual implemented, incorporating enhanced anti-bribery policies and procedures.
- Policy adopted to manage risks associated with sales to customers in higher-risk territories.

Risk appetite: Low

Change during the year and outlook

The Operational Framework and the associated operational assurance process has fundamentally changed the management of legal and compliance risks across the Group.

Further progress was made during the year on fully embedding our Group-wide online compliance system – the Chemring Compliance Portal. The system hosts our Operational Framework policies and associated training material, and automates our anti-bribery processes.

Example key risk indicators

- Regulatory intervention and penalties
- Non-renewal/revocation of licences and permits
- Breaches of policies
- Non-completion of compliance training
- Increase in whistleblowing reports

Link to values

Link to strategy

- Target growing segments
- Win market share

See also: Ethics and business conduct on pages 57 and 58

REPUTATIONAL RISKS

L. CYBER-SECURITY

Risk and potential impacts

Cyber-security and related risks are key emergent areas of critical importance for all businesses, particularly for those involved in the defence and security sector. Threats can emanate from a wide variety of sources and could target various systems for a wide range of purposes, making response particularly difficult.

The data and systems which need to be protected include customer-classified or sensitive information, commercially sensitive information, employee-related data and safety-critical manufacturing systems.

- The Group may suffer from critical systems failures, or its intellectual property, or that of its customers, may fall into the hands of third parties.
- In addition to business interruption and financial loss, the Group may suffer reputational damage, and its business of providing cyber-security services to customers may be irreparably damaged.

Mitigation actions/factors

- Threat assessment completed and an action plan to counter the Group's identified major threats implemented.
- Security Committee established.
- Group-wide cyber-security standard adopted based on the US DFARS "CMMC Level 2" standard and a number of cyber-security defence measures adopted, encompassing, as appropriate to the nature of the threat and sensitivity of data or systems being protected, hardware, software, system, process or people-based solutions.
- Where appropriate, government or commercial accreditation of networks and systems obtained in support of the overall cyber-security programme.
- IT and security systems review included within the internal audit programme.
- Cyber incident scenario planning workshop held.

Risk appetite: Low

Change during the year and outlook

We have an ongoing programme to address IT and cyber-security but the threats in this area continue to evolve and we therefore need to ensure that our security arrangements evolve appropriately in response.

Good progress was made towards achieving CMMC Level 2 compliance at a number of businesses during the year.

Example key risk indicators

- Number of "phish" emails reported
- Number of system attacks and failures

Link to values

Link to strategy

- Target growing segments
- Win market share

VIABILITY STATEMENT AND GOING CONCERN

In accordance with the UK Corporate Governance Code, the Board is required to undertake an assessment of the long-term viability of the Group and going concern basis of accounting.

GOING CONCERN

The Group's business activities, key performance indicators, and principal risks and uncertainties are set out within the strategic report on pages 1 to 75.

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

KEY FINANCIAL METRICS

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

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

ASSESSMENT OF NEAR-TERM PROSPECTS

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

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

SENSITIVITY ANALYSIS

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

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

CONFIRMATION OF GOING CONCERN

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

LONG-TERM VIABILITY

ASSESSMENT OF LONG-TERM PROSPECTS

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

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

PRINCIPAL RISKS

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

SENSITIVITY ANALYSIS

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

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

CONFIRMATION OF VIABILITY

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

NON-FINANCIAL INFORMATION STATEMENT

This section of the strategic report constitutes the Group's non-financial information statement and addresses the requirements of sections 414CA and 414CB of the Companies Act 2006. The non-financial information is included within the various other sections of the strategic report and is cross-referenced below.

Our Code of Conduct provides direction to our employees on the standards of behaviour and business conduct which we expect from them. It sits alongside our Operational Framework, which incorporates a wide range of policies and procedures to enable our businesses to comply with their legal obligations and to operate in a safe, consistent and accountable way.

READ OUR CODE OF CONDUCT POLICY: CHEMRING.COM/SUSTAINABILITY/ETHICS-AND-BUSINESS-CONDUCT

REPORTING REQUIREMENT	RELEVANT POLICIES WHICH GOVERN OUR APPROACH	WHERE TO READ MORE	PAGE
ENVIRONMENTAL MATTERS	- Group health, safety and environmental policy	- Introduction to sustainability - Environment - TCFD report	37 42 45
EMPLOYEES	- People policy - Group health, safety and environmental policy - Directors' remuneration policy - Whistleblowing policy - Code of Conduct	- Stakeholder engagement - Our people - Health and safety - Ethics and business conduct - Directors' remuneration report	21 50 40 57 96
SOCIAL AND COMMUNITY MATTERS	- Community investment policy - Code of Conduct	- Our people - Ethics and business conduct	50 57
RESPECT FOR HUMAN RIGHTS	- Modern Slavery Act Statement - People policy - Supplier Code of Conduct - Code of Conduct	- Our people - Ethics and business conduct	50 57
ANTI-BRIBERY AND CORRUPTION	- Anti-corruption policy - Bribery Act Compliance Manual - Policy on sales to customers located in higher-risk territories - Offset policy - Code of Conduct	- Ethics and business conduct	57
BUSINESS MODEL		- What we do - Investment case - Business model - Market overview - Strategy	2 8 18 12 24
STAKEHOLDERS		- Stakeholder engagement - Corporate governance report	21 80
RISK MANAGEMENT		- Risk management - Principal risks and uncertainties	64 66
NON-FINANCIAL KEY PERFORMANCE INDICATORS		- Key performance indicators - Health and safety - Environment - Our people	26 40 42 50

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

SUSTAINING A ROBUST GOVERNANCE FRAMEWORK

"Our Operational Framework and our Code of Conduct promote a set of policies, practices and behaviours which are fully aligned with Chemring's purpose, values, vision and strategy."

The Board is committed to upholding high standards of corporate governance, protecting and growing shareholder value, and engaging in a fair and transparent manner with all of the Group's stakeholders.

On behalf of the Board, I am pleased to present the governance report for the year ended 31 October 2022. The report explains how the Board operates and how corporate governance is addressed in Chemring. The report comprises:

- Board of directors
- Corporate governance report
- Audit Committee report
- Nomination Committee report
- Directors' remuneration report
- Directors' report

UK CORPORATE GOVERNANCE CODE

In the year under review, Chemring was subject to the UK Corporate Governance Code published in July 2018 by the Financial Reporting Council (the "Code") and the governance report sets out how we have complied with the Code.

PURPOSE, VALUES AND CULTURE

The Board recognises its role in establishing the purpose and values of the Group, and embedding these throughout the organisation.

Our purpose at Chemring is to help make the world a safer place – an endeavour which has been clearly validated over the past year. Across physical and digital environments, our businesses and our employees deliver innovative technologies and products that detect and defeat ever-changing threats. Our purpose and our core values of Safety, Excellence and Innovation form the foundation for our strategy, our business and our organisation. Examples of how we are living our values can be found on pages 6 and 7.

Our Code of Conduct reflects our purpose and our values, and sets out the standards of behaviour and business conduct we expect of all Chemring employees and all third parties acting on our behalf. It also reinforces the culture the Board embraces within Chemring of always doing the right thing and taking personal responsibility for our actions. We firmly believe that promoting a Chemring culture which embraces responsible behaviour will contribute to the long-term success of the business and all of our stakeholders. The Code of Conduct was updated and reissued to all employees during late 2021, and supplemented with ongoing scenario-based training during the year.

GOVERNANCE AND OPERATIONAL FRAMEWORK

Our Operational Framework provides an enhanced governance framework to enable us to operate in a safe, consistent and accountable way. Together with our Code of Conduct, the Operational Framework promotes a set of policies, practices and behaviours which are fully aligned with Chemring's purpose, values, vision and strategy.

The Board has established an Ethics & Compliance Committee, which I currently Chair, with the other members being the Group Chief Executive, the President of our US operations and the Group Legal Director & Company Secretary. The Committee continues to maintain oversight of our ethical business conduct and compliance arrangements across the Group, and its activities reinforce the importance of responsible behaviour at all levels of the organisation. Further details of the Committee's activities during the year can be found on page 57.

STRATEGY

The delivery and evolution of the Group's strategy, which is articulated in my statement on page 10 and in the strategy section on pages 24 to 25, continues to be a key area of focus for the Board. In addition to our annual review of the updated Group strategy, which is completed in July each year, the Board addressed specific strategic topics in each of our meetings during the year. This regular drumbeat of strategic discussions is greatly enhancing the Board's understanding of the potential opportunities available to our businesses and ensuring that the requisite resources are allocated to the realisation of these opportunities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

The Board clearly recognises that long-term value creation can only be delivered through safe, sustainable and responsible business operations. The Board has established a Sustainability Committee, which is chaired by the Group Chief Executive, to oversee the delivery of our ESG strategy. ESG-related objectives are now widely reflected in the incentive arrangements for our leadership teams and performance against agreed ESG targets is monitored by the Board at every meeting. Further details on our ESG-related activities and the progress made in the year can be found on pages 37 to 39.

DIVERSITY

In acknowledgement of the benefits associated with having a diverse range of skills, experience and backgrounds amongst members of the Board, the Nomination Committee has agreed that it would be beneficial to appoint an additional non-executive director in order to further improve diversity on the Board. Further details on the search process which has been instigated are set out in the Nomination Committee report on pages 94 to 95.

STAKEHOLDER ENGAGEMENT

In recognition of the requirement under the Code for the Board to establish a mechanism for engaging directly with our employees, Laurie Bowen is designated as the non-executive director with responsibility for employee engagement on behalf of the Board. Laurie held a number of meetings with employees at all levels of the organisation at three of our US businesses during the year, at which she shared with employees a perspective on the Board's priorities and provided an opportunity for them to ask questions of her. Further details are provided later in the report. Feedback from these meetings has continued to be generally positive, with employees welcoming the opportunity to meet with a non-executive member of the Board and to be able to provide honest feedback to a senior member of the organisation outside of their direct line management. Insights from these interactions, which are reported to the Board following the engagement sessions, continue to provide valuable input to the Board's deliberations.

We fully recognise our obligation to engage with and consider the impact of the Board's decisions on all of our stakeholders. Further details on the US site visits can be found on page 84.

BOARD EFFECTIVENESS

With the further easing of CV-19 travel-related restrictions during the year, the Board was able to resume more regular site visits and took the opportunity to visit the US twice during the year. In April the Board visited our Chicago facility and in September we were able to see first-hand the final commissioning of the automated countermeasures facility in Tennessee.

We continue to develop the strong relationship established with our US Board in recent years, and in addition to meetings with the US Board members whilst the Board was in the US, the President of the US Board attended two of our Board meetings in the UK. Given the significance of our US businesses, it is imperative that we maintain positive interactions with the US Board.

These engagement activities are very beneficial to aiding the Board's understanding of both the challenges and opportunities within our businesses, and we will continue with our scheduled programme of site visits in 2023.

Following the feedback received during the Board performance evaluation during 2021, a new format was adopted in the year for the executive management's monthly report to the Board. The report now includes more information on strategic developments and opportunities, and a section dedicated to ESG-related matters. The new format provides more concise information for the Board and is enabling us to monitor performance in a range of areas more effectively.

BOARD EVALUATION

Having completed a full externally-facilitated Board performance evaluation in late 2020, our evaluation this year was again conducted internally. Further details of the process adopted and key actions arising out of the review are set out on page 88. These will be addressed as part of our continuing efforts to improve the effectiveness of the Board over the forthcoming year.

Carl-Peter Forster
Chairman
13 December 2022

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

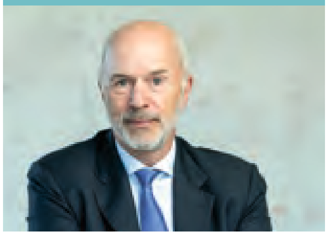
In the year under review, the Company was required to apply the main and supporting principles of good governance set out in the UK Corporate Governance Code issued in 2018 by the Financial Reporting Council (the "Code"). The Company was in compliance with the provisions of the Code throughout the year ended 31 October 2022, with the exception of provision 38 in relation to the alignment of executive directors' pensions with those of the wider workforce. As described on page 97, these have been aligned with effect from 1 November 2022.

Further details on how the Company applied the principles of the Code during the year can be found as follows:

	SEE PAGE
BOARD LEADERSHIP AND COMPANY PURPOSE	
Long-term value and sustainability	80
Culture	81
Shareholder engagement	84
Employee engagement	84
Other stakeholder engagement	83
Conflicts of interest	85
DIVISION OF RESPONSIBILITIES	
Role of the Chairman	86
Division of responsibilities	86
Non-executive directors	86
COMPOSITION, SUCCESSION AND EVALUATION	
Appointments and succession planning	94-95
Skills, experience and knowledge	85
Length of service	78-79
Evaluation	88
Diversity	95
AUDIT, RISK AND INTERNAL CONTROL	
Audit Committee	90
Integrity of financial statements	91-92
Fair, balanced and understandable	92
Internal controls and risk management	64
External auditor	92
Principal and emerging risks	66
REMUNERATION	
Policies and practices	96
Alignment with purpose, values and long-term strategy	112
Independent judgement and discretion	96

EXPERIENCED LEADERSHIP

CHAIRMAN



CARL-PETER FORSTER N R
Non-Executive Chairman

BOARD LENGTH OF SERVICE
(as at 13 December 2022):
6 years, 7 months

EXPERIENCE:
- Board experience at Chairman and Chief Executive level
- Extensive international experience within the industrial goods and engineering sectors
- Expertise in operational excellence and lean manufacturing

Carl-Peter Forster joined the Group as an independent non-executive director and Chairman-designate on 1 May 2016, and was appointed Chairman of the Board on 1 July 2016.

Carl-Peter formerly held senior leadership positions in some of the world's largest automotive manufacturers, including BMW, General Motors and Tata Motors (including Jaguar Land Rover).

Carl-Peter is currently the Senior Independent Director at Babcock International Group PLC* and the Chairman of Vesuvius plc*. He is also a member of the Kinexon GmbH Advisory Board and a member of the Boards of The Mobility House AG, LeddarTech Inc., Envisics Ltd, and Gordon Murray Design Ltd. He was previously a non-executive director of IMI plc, Rexam PLC, Rolls-Royce plc and Cosworth Ltd, and Chairman of the Hella KGaA Shareholder Committee, The London Electric Vehicle Company Ltd and Friedola Tech GmbH, and a member of the Boards of Volvo Cars Corporation and Geely Automobile Holdings.

EXECUTIVE DIRECTORS

MICHAEL ORD
Group Chief Executive

BOARD LENGTH OF SERVICE
(as at 13 December 2022):
4 years, 6 months

EXPERIENCE:
- Extensive senior management experience in the defence sector
- International experience in both service and manufacturing industries

Michael Ord was appointed to the Board on 1 June 2018 and appointed as Group Chief Executive on 1 July 2018.

Michael formerly held a number of senior management roles with BAE Systems including Managing Director of their Naval Ships and F-35 Joint Strike Fighter businesses. Prior to his 1996 move to industry, Michael had a successful career in the Royal Navy serving for 12 years in a number of engineering management roles.

An Aeronautical Systems Engineering graduate and a Chartered Engineer, Michael has also completed post-graduate management studies at Manchester Business School and is a graduate of Harvard Business School's Advanced Management Programme. He is a member of the Royal Aeronautical Society. He previously served as a trustee of The Education & Training Foundation.

ANDREW LEWIS
Chief Financial Officer

BOARD LENGTH OF SERVICE
(as at 13 December 2022):
5 years, 11 months

EXPERIENCE:
- Extensive international experience in the defence sector
- Board experience at Finance Director level
- Chartered Accountant

Andrew Lewis joined the Group on 9 January 2017 and was appointed to the Board as Chief Financial Officer on 19 January 2017.

Andrew spent eight years as Group Finance Director of Avon Rubber p.l.c., where he also performed the Interim CEO role during 2015, following the retirement of the previous CEO.

Prior to joining Avon, Andrew was Group Financial Controller of Rotork plc and before that he was a Director at PricewaterhouseCoopers in Bristol and New Zealand.

SARAH ELLARD
Group Legal Director & Company Secretary

BOARD LENGTH OF SERVICE
(as at 13 December 2022):
11 years, 3 months

EXPERIENCE:
- Legal, compliance and governance expertise
- Chartered Secretary

Sarah Ellard was appointed as Group Legal Director on 7 October 2011, having been Group Company Secretary since 1998.

Prior to joining the Group, Sarah trained and worked at Ernst & Young LLP. She is a Fellow of the Chartered Governance Institute.

* Designates a current public company appointment.

NON-EXECUTIVE DIRECTORS

LAURIE BOWEN A N R
Non-Executive Director

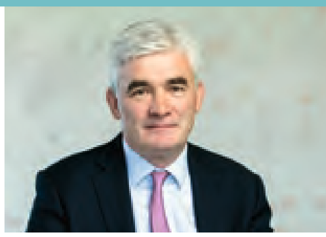
BOARD LENGTH OF SERVICE
(as at 13 December 2022):
3 years, 5 months

EXPERIENCE:
- Board experience at Chief Executive level
- International experience in the technology sector

Laurie Bowen was appointed as an independent non-executive director on 1 August 2019 and was appointed as Chair of the Remuneration Committee on 4 March 2020. She is also a non-executive director and Chair of the Nomination Committee at Ricardo plc*.

Laurie has over thirty years of leadership experience at large multinational telecommunications and technology companies including Cable & Wireless Communications plc, Tata Communications, BT Group plc and IBM. Most recently she was Chief Executive of Telecom Italia Sparkle in the Americas, a subsidiary of the international wholesale arm of Telecom Italia.

Laurie was previously a non-executive director at customer experience technology provider, Transcom Worldwide AB.



ANDREW DAVIES A N R
Senior Independent Non-Executive Director

BOARD LENGTH OF SERVICE
(as at 13 December 2022):
6 years, 7 months

EXPERIENCE:
- Board experience at Chief Executive level
- Extensive knowledge of the international defence industry

Andrew Davies was appointed as an independent non-executive director on 17 May 2016 and was appointed as Senior Independent Director on 1 May 2020. He also served as Chairman of the Remuneration Committee until 4 March 2020.

Andrew is currently Chief Executive of Kier Group PLC*. He has a wealth of relevant sector experience, having served in senior operational and strategic roles at executive committee level at BAE Systems plc for more than fourteen years. He was formerly Chief Executive of Wates Group Ltd.

STEPHEN KING A N R
Non-Executive Director

BOARD LENGTH OF SERVICE
(as at 13 December 2022):
4 years, 1 month

EXPERIENCE:
- Executive and non-executive board experience in public and private companies
- Chartered Accountant

Stephen King was appointed as an independent non-executive director on 1 December 2018 and as Chairman of the Audit Committee on 1 August 2019.

Stephen has a wealth of senior level experience within the industrial, engineering and manufacturing sectors, including a number of executive and non-executive roles. Stephen retired as Group Finance Director of Caledonia Investments plc in 2018. He was previously a non-executive director and Chairman of the Audit Committee at Signature Aviation plc and The Weir Group plc, and a non-executive director and Senior Independent Director at TT Electronics plc.

Stephen was Finance Director at De La Rue plc from 2003 to 2009, and prior to that at Midlands Electricity plc. A Chartered Accountant, Stephen has also held senior financial positions at Lucas Industries plc and Seeboard plc, and was a non-executive director of Camelot plc.

FIONA MACAULAY A N R
Non-Executive Director

BOARD LENGTH OF SERVICE
(as at 13 December 2022):
2 years, 6 months

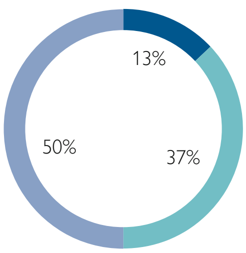
EXPERIENCE:
- Board experience at Chief Executive level and in non-executive positions
- International and operational experience in high hazard industries

Fiona MacAulay was appointed as a non-executive director on 3 June 2020. She is also Chair of IOG plc* and a non-executive director of Ferrexpo plc*, Costain Group PLC* and EPI Group Ltd. She was previously a non-executive director of Coro Energy Plc.

Fiona previously held a number of senior operational roles within the oil and gas sector, including a two-year appointment as Chief Executive of Echo Energy plc in 2017.

Length of service

- 0–2 years (1)
- 3–4 years (3)
- 5+ years (4)



COMMITTEE MEMBERSHIP

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- Denotes Chair

GOVERNANCE FRAMEWORK

The Board is responsible for ensuring leadership of the Group through effective oversight and review, with the aim of delivering the long-term sustainable success of the business. The Board discharges some of its responsibilities directly in accordance with the formal schedule of matters reserved to it for approval, and discharges others through Board committees and the executive management.

The key responsibilities of the Board, its committees and the executive management are set out below.

THE BOARD

Responsible for promoting the long-term sustainable success of the Group; directing its purpose, values and strategy; oversight of financial and organisational control; ensuring that the Group's businesses have appropriate and effective internal control and risk management systems; and ensuring effective engagement with stakeholders.

AUDIT COMMITTEE

Monitors the integrity of the financial statements, and the effectiveness of the external and internal audit processes.

See page 90

(Audit Committee report)

NOMINATION COMMITTEE

Evaluates the size, structure and composition of the Board, and oversees Board appointments.

See page 94

(Nomination Committee report)

REMUNERATION COMMITTEE

Sets and reviews the directors' remuneration policy, and oversees remuneration arrangements for the senior leadership.

See page 96

(Directors' remuneration report)

THE CHIEF EXECUTIVE

Responsible for the leadership and day-to-day management of the business, and development and implementation of the Group's strategy.

EXECUTIVE COMMITTEE

Assists the Group Chief Executive with oversight of the delivery of the Group's strategy, monitoring of the operational and financial performance of the businesses, allocation of resources across the Group, management of risk, and implementation of the Group's Operational Framework and governance policies.

The Group Chief Executive chairs the Executive Committee, which meets bi-monthly. The members of the Committee are the executive directors, the President and the Chief Financial Officer of the Group's US operations, the Group HSE Director, the Group Strategy and Corporate Development Director and the Group Director of Corporate Affairs. Full details of the Executive Committee members can be found on the Group's website (www.chemring.com).

RISK MANAGEMENT COMMITTEE

Oversees the implementation of the risk management policy and framework; identifies the principal risks to which the Group is exposed; monitors risk mitigation plans; and maintains the Group risk register.

See page 64

(Risk management)

ETHICS & COMPLIANCE COMMITTEE

Oversees the Group's ethical business conduct and compliance framework; monitors the implementation of the framework across the Group and recommends areas for improvement in the future.

See page 57

(Ethics and business conduct)

SUSTAINABILITY COMMITTEE

Oversees the implementation of the Group's ESG strategy; monitors progress against agreed ESG targets and identifies further ESG-related objectives.

See page 37

(Introduction to sustainability)

PURPOSE

Chemring's purpose is to help make the world a safer place. Across physical and digital environments, our exceptional teams deliver innovative technologies and products that detect and defeat ever-changing threats. Further details on our purpose and how it links to our strategy and values can be found on pages 6 to 7.

CULTURE AND VALUES

The Board is responsible for ensuring that the Company's culture is aligned with its purpose, values and strategy. We are committed to creating an inclusive culture across Chemring, where everyone does the right thing and takes personal responsibility for their actions. This culture is promoted through leadership and a strong "tone from the top" and is embedded in our Code of Conduct and our Operational Framework, both of which bind our purpose, values, behaviour, policies and procedures, and provide the necessary governance to enable us to operate in a safe, consistent and accountable way.

The Chairman is responsible for ensuring that the Board demonstrates commitment to our values and culture by operating correctly and taking the right actions on behalf of shareholders and other stakeholders. The Group Chief Executive, supported by the Executive Committee and the business unit leadership teams, is responsible for ensuring that our values and culture are fully embedded within all aspects of our operations.

Further details on how our values drive behaviours are set out on pages 18 and 19.

HOW THE BOARD ESTABLISHES AND MONITORS CULTURE

	ESTABLISHMENT OF CULTURE	MONITORING OF CULTURE
SAFETY	- HSE Policy, Management System Framework and Strategy - Focus on "Journey to Zero Harm" and drive towards a proactive safety culture - Fundamental Safety Rules - "Spot It, Stop It, Share It" campaign - Occupational Health, Safety and Wellbeing Committee - Technical Safety Committee	- Monthly reporting to the Board on safety performance against key performance indicators, including near miss reporting rates - The Board receives regular updates from the Group HSE Director on progress against the HSE Strategy, significant incidents and near misses, and key findings of our HSE assurance processes - The Board is briefed by independent external consultants on their periodic review of the Group's progress on embedding a proactive safety culture
EMPLOYEES	- Code of Conduct - Monthly video-blog by the Group Chief Executive and Group-wide communication programme - Diversity, equity and inclusion policy and initiatives - Employee development programmes - Sustainability Committee and inclusion of ESG objectives in short and long-term incentive arrangements	- Laurie Bowen, the non-executive director charged with employee engagement on behalf of the Board, provides regular feedback on her discussions with employees at all levels of the organisation - The Board receives regular updates on employment sentiment across the Group measured through our real-time engagement tool, Employee Voice, and undertakes periodic culture "check-ins" facilitated by an external consultant - Reporting to the Board on progress against established ESG targets - Board site visits
GOVERNANCE AND BUSINESS CONDUCT	- Code of Conduct - Operational Framework and operational assurance process - Ethics & Compliance Committee - Chemring Compliance Portal - Mandatory training programmes - Whistleblowing policy and procedures	- The Ethics & Compliance Committee monitors ethical business conduct and implementation of the Group's compliance framework, and makes recommendations to the Board on areas for future improvements - The Group Legal Director reports to the Board on a monthly basis on governance and compliance matters - Review of compliance with key policies under the Operational Framework is included within the internal audit programme - The Group has a formal whistleblowing policy and procedures, and the Board is provided with an overview of whistleblowing reports received, related investigation findings and any remedial actions taken
INTERNAL CONTROL AND RISK MANAGEMENT	- Operational Framework and operational assurance process - Group Finance Manual and internal control framework - Risk Management Committee - Risk Management Policy and Framework - Internal audit programme	- The Audit Committee reviews internal audit reports produced by our internal auditors, PwC, and the Board considers any significant issues arising therefrom and any improvements required to our internal control systems - The Board reviews the Group risk register on a regular basis and has high-level oversight of mitigation plans implemented for key risks - Operational assurance statements are required to be submitted by the businesses on a half-yearly basis

BOARD ACTIVITIES IN 2022

LEADERSHIP	STRATEGY
- Reviewed the company's purpose, vision and values - Visited businesses in the UK and the US - Monitored culture through feedback on employee sentiment measured through "Employee Voice" - Completed the annual Board performance evaluation	- Approved the updated five-year plan and strategy for the Group - Engaged in reviews of organic and inorganic growth opportunities across the Group - Reviewed potential acquisition targets for Roke and approved the acquisition of Geollect - Considered the implications for the Group of changes to the US Department of Defense's budget funding priorities and the reshaping of other key defence markets - Reviewed the "Data Strategy for Defence" and the "Defence AI Strategy" published by the UK MOD and assessed the potential opportunities for Roke - Reviewed priorities for capital and operational investment
FINANCIAL	**HEALTH, SAFETY, ENVIRONMENT AND SUSTAINABILITY**
- Monitored performance of the businesses against the 2022 budget - Approved the 2023/2024 budgets - Approved the half year results, and the annual report and accounts - Approved an extension to the Group's revolving credit facilities - Reviewed the Group's capital allocation policy - Approved the interim dividend and made a recommendation for the final dividend	- Monitored health, safety and environmental key performance indicators on a monthly basis - Received briefings on significant incidents and high potential near misses - Monitored developments with regards to CV-19 and the potential impact on the businesses - Agreed and reviewed progress against key health, safety and environmental objectives - Received regular updates from the Sustainability Committee - Approved the Group's approach to TCFD reporting and the management of climate change risks - Approved the Sustainability Report
PEOPLE AND CULTURE	**GOVERNANCE, RISK AND REGULATORY**
- Received regular reports from the Remuneration Committee - Considered feedback from Laurie Bowen, the non-executive director designated to engage with employees on the Board's behalf, on issues raised with Mrs Bowen by employees - Reviewed the Group's talent framework, development programmes and succession plans - Reviewed the Group's diversity, equity and inclusion policy and strategy - Received feedback on employee sentiment across the Group	- Reviewed the Group risk register, and completed the annual assessment of the Group's internal control and risk management systems - Received regular updates from the Audit Committee and the Ethics & Compliance Committee - Received updates on key legal issues and regulatory matters impacting the Group - Received regular updates on significant whistleblowing reports - Reviewed the Company's compliance with the Code - Reviewed and updated the Schedule of Matters Reserved for the Board and associated delegated levels of authority - Approved the Group's Modern Slavery Act statement for 2022
SHAREHOLDERS	
- Reviewed feedback from the results presentations and institutional investor meetings - Received updates from brokers and other advisers and the Group Director of Corporate Affairs on current shareholder views on the Group	

HOW THE BOARD CONSIDERS STAKEHOLDERS IN ITS DECISION MAKING

Section 172 (1) of the Companies Act 2006 requires the directors to act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing so, section 172 requires the directors to have regard, amongst other matters, to the:

- likely consequences of any decision in the long term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

The statement of compliance with section 172 is set out on pages 20 to 23, together with details of how the Board engages with stakeholders and how the Board monitors stakeholder interests. Set out below are some specific examples of how the Board considered stakeholders in their decision making during the year.

STRATEGY DEVELOPMENT

- The Board received detailed briefings on the changing market dynamics in key defence markets, with particular focus on the shift in funding priorities in the US in preparation for a peer to peer conflict, and the implications for the Group's future strategy. The Board also reviewed the "Data Strategy for Defence" and the "Defence AI Strategy" published by the UK MoD and considered how the identified requirements aligned with Roke's strategic objectives.
- The Board receives updates from the Group Chief Executive on his regular interactions with the UK MoD and from the President of the US operations on his interactions with key US customers.
- In addition, the Board receives regular feedback from the businesses on the emerging technology requirements of their principal customers and future budget allocations. These inputs are all reflected in the development of strategy, and decisions regarding investment in operational capabilities and research and development.
- In developing the Group's strategy, the Board continues to recognise the need for investment in people, processes and products to ensure that the businesses can operate safely for the benefit of all stakeholders, and allocates resources accordingly.
- The Board also considers feedback from shareholders when reviewing strategy, particularly with regards to capital allocation and future growth plans.

ACQUISITION OF GEOLLECT

- In reviewing and approving the acquisition of Geollect during the year, the Board considered how the technologies developed by the business could be leveraged by Roke in meeting the increasing demand from Roke's existing customers for open source intelligence.
- The Board also considered the culture of the Geollect and Roke organisations, and how the combined organisation could provide development opportunities for employees going forward.

OPERATIONAL INVESTMENT IN ROKE

- A significant level of operational investment has been allocated to Roke over the last two years, including £2.5m of investment in the Roke Academy to attract new talent and create a centre of excellence for learning and development. The business has also invested in its infrastructure, including a new office in Woking to accommodate 150 staff, and in the value proposition for its existing workforce. In approving this investment, the Board considered how it would contribute to the longer-term success of Roke and the wider Group, and the benefits that would be derived by customers and employees, particularly in relation to workforce diversity and career development prospects.

IMPLEMENTATION OF ESG STRATEGY

- During the year, the Board continued to monitor progress against the ESG strategy adopted during 2021, with a particular focus on health and safety, diversity and inclusion, climate change and employee wellbeing. This has driven investment in a number of areas, from capital investment in upgraded new facilities to improve safety and reduce our environmental impact, to the establishment of development and networking programmes focused on promoting diversity across the Group. In approving these investments, the Board has considered the impacts on a wide range of stakeholders, including employees, customers, regulators and our local communities.

Further details on our approach to ESG can be found on pages 37 to 58

EXECUTIVE REMUNERATION

- Following shareholder approval of the updated directors' remuneration policy in March 2022, the Remuneration Committee considered how the remuneration and incentive arrangements for the executive directors would be appropriately flowed down to the next level of management.
- In reviewing the executive directors' remuneration arrangements for the current financial year, the Remuneration Committee assessed how they compared with remuneration arrangements for employees more broadly across the Group, particularly with regards to salary increases, pension contributions and incentive arrangements.

EMPLOYEE ENGAGEMENT

Laurie Bowen is designated as the non-executive director who engages with employees on behalf of the Board. Laurie held a number of meetings with employees at all levels of the organisation in the US businesses during the year, at which she shared with employees a perspective on the Board's priorities and provided an opportunity for them to ask questions of her. Whilst each meeting was different due to the diversity of the businesses and the range of employees who participated in the discussions, the following topics were typically addressed at every meeting:

- the role of the Board and its responsibilities, and, where appropriate, the interaction between the UK and the US Boards;
- application of the Group's values, particularly in relation to safety;
- leadership and vision;
- communication and employee engagement;
- relationships with customers and other stakeholders;
- collaboration within the Group; and
- resourcing, training and employee development.

Feedback from these meetings is provided to the Board and is reflected on, as appropriate, in future decision making. Laurie also provides a high-level overview of the feedback received, on a non-attributable basis, to the leadership of the business involved. Further details on the key themes arising during the year are set out on page 52.

During the two Board visits to the US in the year, the Board members met informally with employees from Chemring Energetic Devices ("CED") and Chemring Countermeasures USA ("CCM USA"). At CED, the Board members met for lunch with small groups of employees from different areas of the business, which provided an informal opportunity for open discussions on the operation of the Board and the Group's strategic priorities, and enabled the employees to talk about the opportunities and challenges in their own area of the business.

The Group Chief Executive engages in regular discussion forums with employees during routine visits to the businesses, and other directors also engage with employees during individual site visits.

The Board believes that its current mechanisms for engagement with employees, including Laurie Bowen's appointment as the non-executive director lead on employee engagement, is currently proving effective, as evidenced by the openness and quality of the discussions with employees. When combined with the feedback on employee sentiment the Board receives through Employee Voice and periodic culture "check-ins", the Board is confident that it receives meaningful input to its decision-making processes. We will, however, continue to review the effectiveness of our approach to engagement with employees and all of our stakeholders on an ongoing basis.

Further details on employee engagement more broadly can be found on page 52

SHAREHOLDER ENGAGEMENT AND THE ANNUAL GENERAL MEETING

The Company operates a structured investor relations programme, focused largely around the half and full year results announcements. Engagement with shareholders during these sessions is predominantly led by the Group Chief Executive, the Chief Financial Officer and the Group Director of Corporate Affairs. Meetings were held with over 120 current and potential institutional shareholders during the year, covering 88 individual institutions in the UK, the US and Japan. In addition to reviewing the results announcements, discussions typically also cover the development of the Group's strategy and ESG-related matters.

The Board receives reports from the Company's advisers on feedback received from existing and potential investors and analysts following meetings with the executive directors. Investor sentiment is a key input into development of the Group's strategy.

During the early part of the year, Laurie Bowen engaged with the Company's larger institutional shareholders regarding the new directors' remuneration policy which was presented to shareholders for approval at the Annual General Meeting in March 2022. Further detail on how the Remuneration Committee responded to the feedback received can be found in the directors' remuneration report included within the 2021 annual report.

The Annual General Meeting provides an opportunity for all shareholders to engage directly with the Board. All directors are required to attend the meeting and make themselves available to take questions from shareholders or address any concerns raised by shareholders. All substantial issues, including the adoption of the annual report and financial statements, are proposed on separate resolutions at the Annual General Meeting. In line with best practice guidelines, voting at the Annual General Meeting is usually conducted by way of a poll, which allows all votes to be counted, not just those of shareholders who attend the meeting.

Further details on the Board's engagement with shareholders can be found on page 22.

BOARD SITE VISITS

Site visits enable the Board to obtain a deeper understanding of the business operations, establish relationships with the wider management team and engage directly with employees. The Board generally receives a presentation from management and views the facilities where safe to do so.

During the year, the Board as a collective visited Roke and received a presentation from the management on their business performance, future strategy, and key opportunities and challenges. As referred to above, the Board also visited CED in Chicago in April 2022 and CCM USA in Tennessee in September 2022.

During the visit to the Chicago facility, the Board met with members of the CED leadership team and received a briefing on current business operations and future strategy. The Board was also able to participate in a detailed tour of the facilities and individual Board members met with groups of employees over lunch. The Board also met with members of the CHG Group, Inc. leadership team during the visit and received a briefing from members of the US Board on developments within the US defence sector.

During the CCM USA visit, the Board visited the new automated countermeasure manufacturing facility and received a detailed briefing on its planned operation. The Board also received a presentation from management on the future strategy for the business.

LEADERSHIP OF THE US BUSINESSES AND THE US BOARD

Our US Board is established under our Special Security Agreement ("SSA") with the US Government and includes four independent US directors approved by the US Government. The SSA imposes certain restrictions on the degree of control and influence we can exert over our US businesses and it is imperative that we maintain a strong relationship with the US Board, in order to ensure that we are fulfilling our own governance obligations. The Group Chief Executive and Chief Financial Officer are both members of the US Board.

The Chairman of the US Board and/or the President of our US operations attended several of our Board meetings during the year, including the meeting at which we conducted our annual review of the Group strategy. Our broader interaction with the US Board has increased in recent years, and the increased collaboration is proving very beneficial from both an operational and governance perspective. Our US Board also collates and provides valuable feedback from a range of both internal and external internal stakeholders in the US, and this is a key input into the annual strategy review.

COMPOSITION OF THE BOARD AND INDEPENDENCE
The Board currently comprises three executive directors and five non-executive directors (including the Chairman). The biographical details of individual directors, including details of their other significant business commitments, are set out on pages 78 and 79.

The Board considers all of the current non-executive directors to be independent in judgement and character, and considered Carl-Peter Forster to be independent on his appointment as Chairman.

The Board considers that the current balance of executive and non-executive influence on the Board is appropriate for the Company, taking into account its size and status, and serves to ensure that no single director or small group of directors dominate the Board's deliberations and decision making.

The roles of Chairman and Chief Executive are separate and clearly defined in accordance with the requirements of the Code, with the division of responsibilities set out in writing and agreed by the Board.

TIME COMMITMENT OF DIRECTORS
The Board recognises the importance of ensuring that individual directors have sufficient time available to discharge their duties effectively. Existing commitments of prospective directors are carefully considered prior to appointment and incumbent directors are required to notify the Chairman or, in the case of the Chairman the Senior Independent Director, if there are any significant changes to their external commitments.

APPROVAL OF DIRECTORS' EXTERNAL APPOINTMENTS
In accordance with the Code, all proposed new external appointments of directors require the approval of the Board.

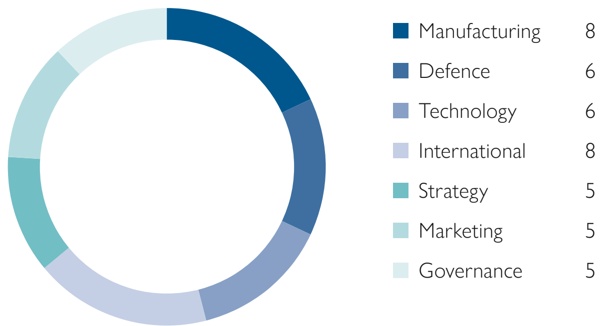
During the year, the Board approved the proposed appointment of the Chairman as a non-executive director and Chairman-designate of Vesuvius plc. In approving this appointment, the Board satisfied itself that, following the cessation of certain of his other appointments, the Chairman would continue to have the capacity to fulfil his obligations to the Group. The Board also approved the appointment of Fiona MacAulay as a non-executive director of Costain Group PLC following her resignation as a non-executive director of Coro Energy Plc.

CONFLICTS OF INTEREST
All directors have a duty under the Companies Act 2006 (the "2006 Act") to avoid a situation in which he or she has or can have a direct or indirect interest that conflicts or may possibly conflict with the interests of the Company. The Company's Articles of Association include provisions for dealing with directors' conflicts of interest in accordance with the 2006 Act. The Company has procedures in place to deal with situations where directors may have any such conflicts, which require the Board to:

- consider each conflict situation separately on its particular facts;
- consider the conflict situation in conjunction with the rest of their duties under the 2006 Act;
- keep records and Board minutes as to authorisations granted by directors and the scope of any approvals given; and
- regularly review conflict authorisation.

EXPERIENCE OF THE BOARD
The members of the Board also maintain the appropriate balance of experience and knowledge of the business to enable them to discharge their duties and responsibilities effectively.

NUMBER OF DIRECTORS WITH APPLICABLE SPECIFIC EXPERIENCE



BOARD ROLES AND RESPONSIBILITIES

The key responsibilities of the Board members are set out below.

CHAIRMAN

- Responsible for the leadership of the Board and ensuring its overall effectiveness in directing the Group
- Ensures that the Board is kept properly informed and is consulted in a timely manner on all decisions reserved to it
- Promotes a culture of openness and debate, and facilitates constructive relations between the executive and non-executive directors
- Ensures that the training and development needs of directors are identified

CHIEF EXECUTIVE

- Responsible for the leadership and day-to-day management of the business
- Develops strategy for Board approval and ensures that the agreed strategy is implemented successfully
- Presents the annual budget and five-year plan to the Board for approval and delivers agreed objectives
- Identifies new business opportunities, and potential acquisitions and disposals
- Manages the Group's risk profile, including the management of health and safety
- Ensures that the Board is fully informed of all key matters

CHIEF FINANCIAL OFFICER

- Supports the Chief Executive in developing and implementing the global finance strategy
- Oversees the finance functions across the Group
- Ensures effective financial controls and financial reporting processes are in place
- Ensures the Group has adequate bank facilities and financial resources

SENIOR INDEPENDENT DIRECTOR

- Provides support to the Chairman and acts as a trusted sounding board
- Reviews the Chairman's performance with the other non-executive directors
- Available to meet shareholders if they have concerns which cannot be resolved through the normal channels

NON-EXECUTIVE DIRECTORS

- Participate in the development of strategic objectives, provide constructive challenge and monitor the performance of executive management in achieving the agreed objectives
- Monitor the Group's financial performance
- Consider the integrity of the Group's financial information, and whether the financial controls and risk management systems are robust and defensible
- Determine the appropriate remuneration policy for the executive directors
- Meet periodically with the Group's senior management and visit operations
- Meet regularly without the executive directors being present

LEGAL DIRECTOR & COMPANY SECRETARY

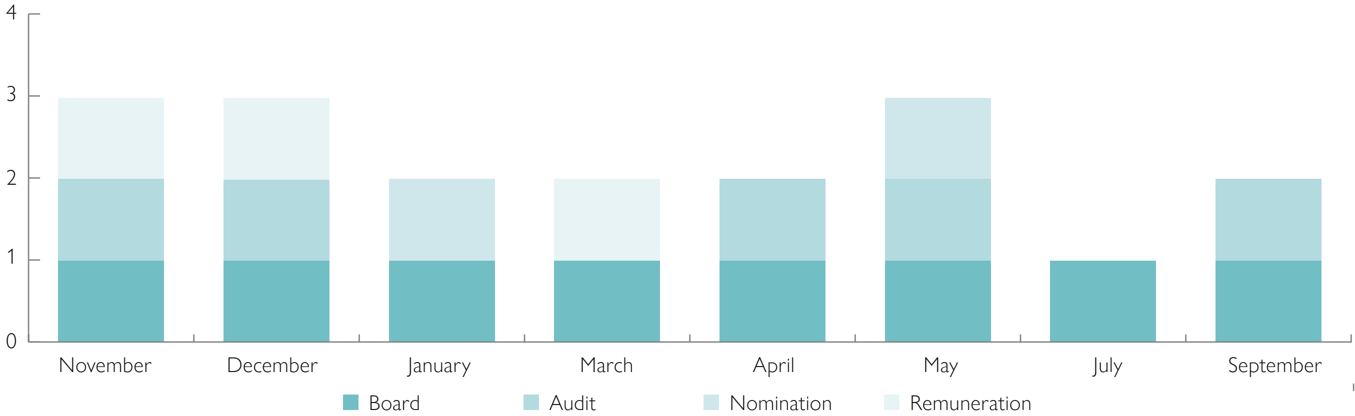
- Oversees legal matters and compliance across the Group
- Secretary to the Board and its committees
- Under the direction of the Chairman, responsible for maintaining good information flows within the Board and its committees
- Develops Board and committee agendas, and collates and distributes papers
- Assists with the induction of new directors
- Keeps directors informed about changes to their duties and responsibilities
- Provides advice on legal, regulatory and corporate governance matters

BOARD MEETINGS AND ATTENDANCE

The Board convenes for scheduled meetings at least seven times a year. The Board receives a report from the Executive Committee, covering health and safety performance, operational and financial performance, legal, people and investor relations related issues, as a standing agenda item at every scheduled meeting. Members of the senior leadership team, representatives of the US Board and external advisers attend Board meetings by invitation, as appropriate.

The Board aims to meet jointly with the Group's US Board, further details of which are set out on page 84, at least once a year.

BOARD AND COMMITTEE MEETINGS HELD DURING THE YEAR



The following table shows the attendance of all directors who served during the year at the meetings of the Board and its committees:

Board member	Board (8 scheduled meetings and 8 ad hoc meetings)	Audit Committee (5 scheduled meetings)	Nomination Committee (2 scheduled meetings and 2 ad hoc meetings)	Remuneration Committee (3 scheduled meetings)
CARL-PETER FORSTER	16(16)	—	4(4)	3(3)
LAURIE BOWEN	16(16)	5(5)	4(4)	3(3)
ANDREW DAVIES	16(16)	5(5)	4(4)	3(3)
SARAH ELLARD	16(16)	—	—	—
STEPHEN KING	15(16)	5(5)	4(4)	3(3)
ANDREW LEWIS	15(16)	—	—	—
FIONA MACAULAY	15(16)	5(5)	4(4)	3(3)
MICHAEL ORD	16(16)	—	—	—

The maximum number of meetings which each director could have attended is shown in brackets. All directors attended all scheduled Board meetings.

In addition to the scheduled meetings, eight ad hoc Board meetings were convened to deal with matters which arose between scheduled meetings.

During the year, the Chairman met regularly with the non-executive directors without the executives being present.

COMPOSITION, SUCCESSION AND EVALUATION

BOARD APPOINTMENTS AND RE-ELECTION OF DIRECTORS

New appointments to the Board and its committees are made by the Board on the recommendation of the Nomination Committee.

In accordance with the Company's Articles of Association, all directors are required to submit themselves for re-election at each Annual General Meeting. The papers accompanying the Notice of Annual General Meeting include a statement from the Chairman confirming that the performance of each non-executive director seeking re-election at the meeting continues to be effective and that each director continues to demonstrate commitment to their role.

DIVERSITY

The Board recognises the importance of promoting diversity in its broadest sense, both at the Board level and across the entire business, and we remain committed to further improving diversity on the Board, the Executive Committee and the wider senior leadership team. Against this background, we have instigated a search for an additional non-executive director, further details of which are set out in the Nomination Committee report on pages 94 to 95.

Further details on the Board's policy and approach to diversity are also set out in the Nomination Committee report.

INDUCTION, TRAINING AND DEVELOPMENT

An internal induction programme on the Group's operations, and its strategic and business plans, is provided for newly-appointed directors. Directors are invited to meet key members of the senior management team at the earliest opportunity, and site visits are arranged to facilitate their understanding of the Group's operations.

The Group Legal Director & Company Secretary also provides detailed information on the operation of the Board and its committees, directors' legal duties, and responsibilities on appointment.

The Company meets the cost of appropriate external training for directors, the requirement for which is kept under review by the Chairman.

Directors are continually updated on the Group's businesses and the matters affecting the markets in which they operate. The Group Legal Director & Company Secretary updates the Board on a regular basis with regards to regulatory changes affecting the directors and the Group's operations generally, and briefings are provided by the Group's advisers on key developments in areas such as financial reporting and executive remuneration practice.

INDEPENDENT ADVICE

All directors are entitled to take independent professional advice in furtherance of their duties at the Company's expense, should the need arise. No director had reason to seek such advice during the year.

PERFORMANCE EVALUATION

The performance evaluation of the Board was externally facilitated in 2020 and an internal evaluation was therefore conducted during the year following the approach adopted in 2021.

Questionnaires were sent to each of the directors for completion, with a focus on:

- Board leadership;
- operation of the Board and its committees;
- Board composition and succession;
- the Board's role in establishing the Company's purpose and values;
- strategy development;
- performance and risk monitoring;
- audit and internal control;
- key objectives for the Board in 2023; and
- identification of other areas in which the Board could improve its effectiveness.

The individual responses were collated and consolidated by the Group Legal Director & Company Secretary into a report which was discussed with the Chairman prior to sharing with the remainder of the Board. Specific comments from directors were not attributed to individuals in order to provide full transparency on the responses.

The Board concluded that it and the Board committees had continued to work well together during the year and concurred that the resumption of site visits and more regular, focused discussions on strategy had been beneficial. The Board agreed that whilst the current balance of skills and experience on the Board was appropriate, the diversity of the Board could be further improved with the appointment of an additional non-executive director. The Board also agreed it would be beneficial to initiate succession planning for the Chairman and the Senior Independent Director, who are both serving their third three-year terms. Further details on the actions being taken to address these matters are set out in the Nomination Committee report on pages 94 and 95. The following additional actions were also agreed to be taken to further improve the effectiveness of the Board in the year ahead:

- continued focus of the Board and Nomination Committee on diversity, equity and inclusion, and succession planning;
- regular and focused reviews of future strategic growth opportunities, with input from the US Board members on the US defence market;
- continuation of the Board's site visit programme, with at least one visit to the US;
- further strengthening of the Board's interactions with key stakeholders; and
- increased interactions between the non-executive directors outside of scheduled Board meetings.

In addition to the formal performance evaluation, the Chairman and non-executive directors also reviewed the individual performance of the executive directors as part of the annual remuneration review.

AUDIT, RISK AND INTERNAL CONTROL

FINANCIAL AND BUSINESS REPORTING

The statement of directors' responsibilities in respect of the financial statements and accounting records maintained by the Group is set out on page 122.

Having taken all the matters considered by the Board and brought to the attention of the Board during the year into account, the Board is satisfied that the annual report and accounts for the year ended 31 October 2022, taken as a whole, is fair, balanced and understandable. Furthermore, the Board believes that the disclosures set out on pages 1 to 75 provide the information necessary to assess the Group's performance, business model and strategy.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for determining the nature and extent of the risks that it is willing to take to achieve its strategic objectives. The Board is also responsible for ensuring that the Group's risk management and internal control systems are effective across the businesses, and that appropriate risk mitigation plans are in place.

The Board undertakes an annual review of the effectiveness of the Group's systems of internal control, including financial, operational and compliance controls, and risk management systems. Further details of the review undertaken during the financial year ended 31 October 2022 are set out on page 65.

OPERATIONAL FRAMEWORK

Our Operational Framework incorporates a broad range of policies and procedures which have been adopted by all of our businesses, and provides an enhanced governance structure to enable us to operate in a safe, consistent and accountable way. As part of this enhanced governance structure, there is a requirement for all businesses to complete a detailed Operational Assurance Statement on a half-yearly basis, providing an assessment of their compliance with the Operational Framework.

The output from the operational assurance process provides assurance to the Board that our internal systems and controls are operating effectively, and is an important input to our internal audit and risk management activities.

AUDIT

Details of the Group's external and internal audit activities can be found in the Audit Committee report on pages 90 to 93.

LONG-TERM VIABILITY STATEMENT

The Code requires the Board to undertake an annual assessment of the long-term viability of the Group, further details of which can be found on page 74.

AUDIT COMMITTEE REPORT

Stephen King
Chairman
of the Audit
Committee

AUDIT COMMITTEE MEMBERS

- Stephen King (Chairman)
- Laurie Bowen
- Andrew Davies
- Fiona MacAulay

KEY RESPONSIBILITIES OF THE AUDIT COMMITTEE

- Monitoring the integrity of the Group's financial statements and any formal announcements relating to the Group's financial performance, and reviewing the appropriateness of significant financial reporting judgements
- Providing guidance to the Board in its consideration of whether the annual report and accounts are fair, balanced and understandable
- Making recommendations on the appointment, reappointment and remuneration of the internal and external auditors
- Ensuring that an appropriate relationship between the Group and the external auditor is maintained, and overseeing the provision of non-audit services
- Reviewing and monitoring the external auditor's independence and objectivity
- Reviewing the effectiveness of the Group's internal controls and risk management systems
- Considering the effectiveness of the Group's internal audit function and monitoring internal audit activities

INTRODUCTION

I am pleased to present my report as Chairman of the Audit Committee.

The Audit Committee continues to play a key role in the governance of the Group's financial affairs, both through monitoring the integrity of the Group's financial reporting and reviewing material financial reporting judgements. The report provides an overview of the operation of the Committee and its activities during the year. During the early part of the financial year, the Committee was focused on matters relating to the 2021 financial statements, which were covered in detail in last year's report. The report this year therefore focuses on the Committee's activities in relation to the 2022 half year and full year results, and the external and internal audit activity during 2022.

MEMBERSHIP OF THE AUDIT COMMITTEE

The Audit Committee has been established by the Board and is responsible for monitoring the integrity of the Group's financial statements and the effectiveness of the internal and external audit process.

All members of the Committee are independent non-executive directors, and each brings a broad range of financial and business expertise. I have previously served as the finance director of substantial public companies, and therefore possess recent and relevant financial experience. The Board considers that the Committee members possess an appropriate level of independence and offer a depth of financial and commercial experience across various industries, in particular within the defence and technology sectors.

OPERATION OF THE COMMITTEE

The Committee's full responsibilities are set out in its terms of reference, which are available on the Company's website. The Committee reviews its terms of reference and its effectiveness annually and recommends to the Board any changes required as a result of the review.

Meetings of the Committee are attended, at the invitation of the Chairman, by the external auditor, the Chairman of the Board, the Group Chief Executive, the Chief Financial Officer, the internal auditors and representatives from the Group finance function. The Committee meets with the external and internal auditors on a regular basis without the executive directors being present. The Company Secretary acts as secretary to the Committee and minutes of meetings are circulated to all Board members. Details of attendance of members of the Committee at the five meetings held during the year are shown on page 87.

A verbal report on key issues discussed by the Committee is provided to the Board after every meeting.

The Chairman of the Committee meets regularly with the Chief Financial Officer, the external audit lead partner and the internal audit lead partner outside of scheduled meetings.

The Committee is authorised to seek any information it requires from any employee of the Group in order to perform its duties, and to obtain any outside legal or other professional advice it requires at the Company's expense.

THE COMMITTEE'S ACTIVITIES DURING THE YEAR

AREAS OF FOCUS	MATTERS CONSIDERED
FINANCIAL REPORTING	- Content of the Group's interim and preliminary results announcements and the annual report, and in particular, whether the annual report was fair, balanced and understandable - Appropriateness and disclosure of accounting policies, key judgements and key estimates - The presentation of alternative performance measures - The Group's going concern status and viability statements - Financial Reporting Council thematic reviews
RISK AND CONTROL ENVIRONMENT	- Effectiveness of the Group's systems of internal control - Implementation of new ERP systems across the Group - Department for Business, Energy and Industrial Strategy proposals on audit and corporate governance reforms
EXTERNAL AUDIT	- Interim review and full year audit plans - Effectiveness and independence of the external auditor - Non-audit services provided by the external auditor - External auditor's reports on the half year and full year results, and consideration of points raised by the auditor - Transition to a new external audit partner in 2023
INTERNAL AUDIT	- Internal audit strategy and plan - Effectiveness of the internal auditors and their key findings

The Committee relies on regular reports from the executive directors, the wider management team, and the external and internal auditors in order to discharge its responsibilities. The Committee is satisfied that it received timely, sufficient and reliable information to enable it to fulfil its obligations during the year.

FINANCIAL REPORTING

A summary of the significant issues considered in relation to the 2022 financial statements is set out below.

The Committee also reviewed the following reports issued by the Financial Reporting Council (the "FRC") on their thematic reviews of financial reporting and disclosures relating to:

- alternative performance measures;
- going concern and viability;
- deferred tax assets;
- earnings per share;
- business combinations;
- judgements and estimates; and
- Task Force on Climate-related Financial Disclosures requirements

and considered how the matters raised had been addressed in the 2022 half year results statement and the 2022 financial statements.

The Company is required to produce the 2022 financial statements in a structured electronic format, known as the "European Single Electronic Format" or "ESEF", for the first time this year. The Committee considered the FRC Lab's guidance for companies implementing ESEF and reflected on this in agreeing the approach to ESEF during the year.

SIGNIFICANT ISSUES CONSIDERED BY THE COMMITTEE IN RELATION TO THE FINANCIAL STATEMENTS

RECOVERABILITY OF GOODWILL, OTHER INTANGIBLE ASSETS, AND THE PARENT COMPANY'S INVESTMENTS IN, AND INTERGROUP RECEIVABLE BALANCES WITH, SUBSIDIARIES

The Committee considered the carrying value of goodwill, intangible assets and the parent company's investments in, and intergroup receivable balances with, subsidiaries held on the balance sheet as at 30 April 2022 and 31 October 2022, against the latest forecasts for the businesses concerned and the future strategic plan for the Group. As a result of these reviews, an impairment loss of £71.7m was recognised in the parent company financial statements in respect of the carrying value of CHG Overseas Limited, the holding company for the Group's overseas subsidiaries. The impairment loss does not impact the Group's consolidated balance sheet.

CAPITALISED DEVELOPMENT COSTS

The Committee continued to monitor the level of development costs capitalised during the year and the periods over which such costs are to be amortised. Detailed reviews of the Group's most significant research and development projects, and their associated capitalised development costs, were undertaken by the Committee in April 2022 and September 2022. As a result of these reviews, an impairment charge of £2.2m was recognised in April 2022 in respect of development costs which had been capitalised for a Roke product for which there were no sales forecast for the forseeable future.

ALTERNATIVE PERFORMANCE MEASURES

The Committee reviewed the use of alternative performance measures in the interim results statement and the annual report. The Committee concluded that the use of alternative performance measures did enhance a reader's understanding of the accounts and that they were presented in a fair, balanced and understandable manner.

The Committee is required to consider whether it is appropriate to adopt the going concern basis in preparing the interim and full year results. In order to satisfy itself that the Group has sufficient financial resources to enable it to continue trading for the foreseeable future, the Committee regularly reviews the adequacy of the Group's financing facilities against future funding requirements and working capital projections. Based on its review of the Group's forecasts during the year and discussions with the external auditor, the Committee recommended to the Board the adoption of the going concern basis for the preparation of the interim and full year results.

The Group is also required to make a statement on its long-term viability in the financial statements. The Committee considered the period over which the Group's viability would be assessed and having concluded that a three-year period was appropriate, the Committee undertook a review of the analysis and projections which supported the viability assessment prior to submission to the Board. Further details on the assessment process and the Group's long-term viability statement are set out in the strategic report on page 74.

SIGNIFICANT ISSUES CONSIDERED BY THE COMMITTEE IN RELATION TO THE FINANCIAL STATEMENTS continued

Since the year end, the Committee has reviewed the form and content of the 2022 annual report and accounts, and recommended to the Board that, taken as a whole, the annual report and accounts should be considered as fair, balanced and understandable. The Committee also concluded that the annual report and accounts provides the information necessary to assess the Group's position and performance, business model and strategy.

In making this assessment, the Committee considered:

IS THE REPORT FAIR?

- Is the narrative in the strategic report consistent with the financial statements?
- Have any significant matters been omitted?

IS THE REPORT BALANCED?

- Has appropriate prominence been given to both positive and negative aspects of performance during the year?
- Is there an appropriate balance between the disclosure of statutory measures of performance and alternative performance measures ("APMs")?

IS THE REPORT UNDERSTANDABLE?

- Is the presentation of performance clear, with consistent use of key performance indicators?
- Is there clarity around the use of APMs?

PROPOSED AUDIT AND CORPORATE GOVERNANCE REFORMS

In May 2022, the Department of Business, Energy & Industrial Strategy ("BEIS") issued the Government's response to last year's White Paper on "Restoring trust in audit and corporate governance", summarising the feedback received on the White Paper and setting out the measures the Government intends to pursue.

In late 2021, in response to the White Paper, the Group initiated a project focused on the development of an improved internal control framework to ensure that processes, risks and controls were established and documented in a consistent way across the Group. Process flows and control matrices were developed and reviewed by PwC as part of their internal audit thematic review of the Group's preparedness for the potential new requirements set out in the original BEIS consultation. The new control framework was reviewed by the Committee and approved for implementation by the businesses with effect from 1 November 2022. We believe that this will assist the businesses in complying with the potential new requirements set out in the White Paper and will help to improve the effectiveness of our internal control environment and lead to more focused internal audit activities in future.

Further developments with regards to the proposed BEIS reforms are being closely monitored by the Committee.

EXTERNAL AUDIT

The Audit Committee is responsible for making recommendations to the Board on the appointment, reappointment and removal of the Company's external auditor. The Committee also undertakes an annual assessment of the auditor's independence and objectivity, taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services.

AUDIT EFFECTIVENESS

The Committee assesses the effectiveness of the external auditor on an ongoing basis, with particular reference to:

- the arrangements for ensuring the external auditor's independence and objectivity;
- the external auditor's fulfilment of the agreed audit plan and any variations from the plan;
- the robustness and perceptiveness of the auditor in their handling of the key accounting and audit judgements;
- the willingness of the auditor to challenge management;
- the effectiveness of co-ordination of the individual business unit audits on a global basis;
- the content of the external auditor's reports and internal control recommendations; and
- the feedback received on the conduct of the external audits from key people involved in the audit process.

There are no contractual or similar obligations to restrict the choice of external auditor.

KPMG was appointed as the Group's external auditor in March 2018, following a tender process, and Andrew Campbell-Orde has acted as audit partner since the appointment. Mr Campbell-Orde has now completed his fifth year as the lead audit partner and following discussions with the Committee, it has been agreed that a new audit partner, James Childs-Clarke, will assume responsibility for the Group's audit for the 2023 financial year. Mr Childs-Clarke was the Director on the Group's audit from 2018 to 2020 and therefore has a good level of knowledge of the Group's businesses and their financial reporting arrangements. Having not been involved in the 2021 and 2022 audits, Mr Childs-Clarke is considered independent.

The audits of the Group's US businesses are carried out by KPMG US under a separate engagement letter in order to satisfy the requirements of our Special Security Agreement with the US Government. KPMG's UK and US audit teams need to co-ordinate their work to ensure that the audit of the consolidated Group results at the year end can be completed efficiently. In order to facilitate this, the annual audit plan provided for planning work for the 2022 year end audits of the US businesses to commence in the first half year of the financial year, which enabled the Group audit to be completed within the requisite timeframe following the year end. In addition, in 2022 the UK Senior Audit Manager from KPMG visited the audit team at KPMG US to ensure the US audits were progressing as planned and in line with international auditing standards.

The Committee did not ask the auditor to review any specific areas of concern, outside of the normal audit process, during the year.

The Committee reviewed KPMG's overall effectiveness in fulfilling the external audit during the year and concluded that KPMG had conducted a comprehensive, appropriate and effective audit.

The Committee has recommended to the Board that KPMG be reappointed as the Group's auditor at the 2023 Annual General Meeting.

The company is in compliance with the provisions of The Statutory Audit Services for Large Companies Market Investigation Order 2014.

AUDITOR INDEPENDENCE

The Committee keeps under review the level of any non-audit services which are provided by the external auditor, to ensure that this does not impair their independence and objectivity.

The Committee has adopted a policy which states that the external auditor should not be appointed to provide any non-audit services to the Group, unless the Committee agrees that their appointment would be in the best interests of the Company's shareholders in particular circumstances and would not create any direct conflict with their role as external auditor. In approving any such appointment, the Committee is also required to consider:

- whether the provision of the proposed services might compromise the auditor's independence or objectivity;
- whether the non-audit services will have a direct or material effect on the Group's audited financial statements;
- whether the skills and experience of the external auditor make it the most suitable supplier of the non-audit services; and
- the level of fees proposed for the non-audit services relative to the audit fees.

The external auditor is required to provide the Committee with a written confirmation of independence for all duly-approved engagements for non-audit services.

The policy adopted by the Committee expressly prohibits the provision of certain non-audit services by the external auditor, in line with regulatory requirements and UK ethical guidance.

Details of the amounts paid to the external auditor during the year for audit and non-audit services are set out in note 4 to the Group financial statements. Total fees of £0.1m were paid to KPMG during the year in respect of non-audit services, which related to the review of the interim results and an audit report for Chemring Nobel's tax return as is required from the auditor under Norwegian tax law. The Committee concluded that neither the nature or scope of these services gave rise to any concerns regarding the objectivity or independence of KPMG.

The Committee, in conjunction with the Chief Financial Officer, ensures that the Group maintains relationships with a sufficient choice of appropriately qualified alternative audit firms for the provision of non-audit services.

INTERNAL AUDIT

The Audit Committee is responsible for reviewing the work undertaken by the Group's internal auditor, assessing the adequacy of the internal audit resource, and recommending changes for increasing the scope of the internal audit activities.

The Group's internal audit programme incorporates a review of all sites on a two or three-year rotational basis, and focuses on both financial and non-financial controls and procedures. The Committee approves the annual internal audit plan and receives regular reports from the internal auditor.

The internal audit programme was managed by PwC during the year, who were appointed by the Committee in 2018. In accordance with the established practice, the programme covered financial and commercial processes, governance arrangements, and key corporate risks. Where appropriate, suitably-qualified employees of the Group participate in internal audits on other Group businesses in which they have no direct involvement, with oversight from PwC. This facilitates sharing of best practice across the Group and contributes to the development of employees involved in the audits.

The internal audit plan for 2022 included specific focus on:

- the key financial and operating controls within the business;
- IT and cyber-security governance and controls;
- the effectiveness of business continuity plans across the Group;
- compliance with the Group's Bribery Act Compliance Manual;
- the Group's plan for addressing the proposed audit and corporate governance reforms set out in the BEIS consultation;
- compliance with the US International Traffic in Arms Regulations ("ITAR") in the Group's non-US businesses; and
- compliance with the Group's Commercial Policy.

No significant internal control failings or weaknesses were identified during the year.

PwC presents its internal audit reports to the Committee on a quarterly basis. The management of each business is responsible for implementing the recommendations made by the internal auditor, and the Committee reviews progress on a regular basis. Progress on addressing internal audit findings is also reviewed by the Group Chief Executive and the Chief Financial Officer in their quarterly reviews with each of the businesses.

Since their appointments in 2018, PwC have completed the full cycle of site reviews and have audited every trading business within the Group at least once during their tenure, and conducted thirteen thematic reviews. With the implementation of the new internal control framework across the Group with effect from 1 November 2022, the financial control requirements are now more clearly defined, removing a layer of subjectivity to the internal audit scoping that existed previously. Against this background, the Committee has agreed that, going forward, a new Internal Audit Manager will be appointed, who will report functionally to the Chairman of the Committee and will conduct internal audits across the Group in place of PwC, with the support of in-house Group employees where appropriate. These activities will be supplemented in specialist areas, such as IT and cyber security, with more focused assurance reviews by external experts. The Committee will review the new arrangements at the end of 2023 to ensure that they have been implemented appropriately.

Stephen King
Chairman of the Audit Committee
13 December 2022

NOMINATION COMMITTEE REPORT

Carl-Peter Forster
Chairman of the Nomination Committee

NOMINATION COMMITTEE MEMBERS

- Carl-Peter Forster (Chairman)
- Laurie Bowen
- Andrew Davies
- Stephen King
- Fiona MacAulay

INTRODUCTION

I am pleased to present the Nomination Committee's report for the year ended 31 October 2022.

The main focus of the Committee during the year was on the development of the Group's diversity, equity and inclusion ("DE&I") strategy and succession planning for the Board and the wider leadership team.

The Committee reviewed the changes to the Listing Rules regarding diversity which will apply to the Group in the financial year ending 31 October 2023. We have increased our disclosures on ethnic and gender diversity amongst our employees in this year's annual report in preparation for compliance with the new requirements next year and as detailed below, we have instigated a search for a new non-executive director to further improve diversity on the Board.

The Committee also considered the reappointments of various members of the Board. Further details are set out below.

MEMBERSHIP OF THE COMMITTEE

The Nomination Committee's key role is to ensure that the Board has the appropriate skills, knowledge and experience to operate effectively and deliver the Group's strategy.

All members of the Committee are independent non-executive directors. I chair the Committee but will not do so where the Committee is dealing with my own reappointment or my replacement as Chairman of the Board.

KEY RESPONSIBILITIES OF THE COMMITTEE

- Reviewing the structure, size and composition of the Board, and making recommendations on appointments to the Board and to Board committees
- Reviewing the overall leadership needs of the organisation
- Oversight of the Group's diversity policy
- Succession planning for the Board, the Executive Committee and the wider leadership team

OPERATION OF THE COMMITTEE

The Committee's responsibilities are set out in its terms of reference, which are available on the Company's website. The Committee reviews its terms of reference and its effectiveness annually, and recommends to the Board any changes required as a result of the review.

Meetings of the Committee are attended, at the invitation of the Chairman, by the Group Chief Executive when considered appropriate. Members of the Committee do not participate in any discussions relating to their own reappointment or replacement. The Company Secretary acts as secretary to the Committee and minutes of meetings are circulated to all Board members. Details of attendance of members of the Committee at the two scheduled and two ad hoc meetings held during the year are shown on page 87.

BOARD COMPOSITION

The Committee regularly reviews the composition and balance of the Board and its committees, and considers non-executive directors' independence, whether the balance between non-executive and executive directors remains appropriate, and whether the Board has the requisite skills and experience to oversee delivery of the agreed strategy for the Group.

The Board performance evaluation completed during the year, further details of which are set out on page 88, considered the potential requirement for additional appointments to the Board. Whilst we are satisfied with the current composition, we agreed that it would be beneficial to appoint an additional non-executive director to further improve diversity on the Board. Odgers Berndtson have recently been engaged to undertake the search for suitable candidates on our behalf.

APPOINTMENTS TO THE BOARD

The Committee is responsible for reviewing and recommending new appointments to the Board, and for considering the reappointment of current directors.

Stephen King's first three-year appointment as a non-executive director expired in November 2021 and Laurie Bowen's first three-year appointment as a non-executive director expired in July 2022. After due consideration of their valuable contribution to the Board and their roles as chair of the Audit Committee and the Remuneration Committee respectively, the Committee recommended to the Board that both Stephen and Laurie be reappointed for a second three-year term.

My second three-year appointment as Chairman and a non-executive director and Andrew Davies' second three-year appointment as a non-executive director expired in April 2022 and May 2022 respectively. The Committee concluded that we both continue to demonstrate commitment to our roles and make an effective contribution to the Board, and we both therefore accepted further three-year appointments. The Committee recognises that we are both now serving our third three-year terms and has agreed that we will start to develop orderly succession plans for both of us in 2023.

With regards to the appointment of new non-executive directors to the Board, the Committee has an established process for identifying the attributes, skills and experience required of potential candidates. External recruitment consultants are engaged to undertake the search and provide an initial long list of potential candidates, which is reviewed by the Committee. Members of the Committee then meet with short-listed candidates, before selecting a small number of preferred candidates to meet with other members of the Board. It is intended that our current search for an additional non-executive director, which is referenced above, will be conducted in this manner. A similar external search will also generally be undertaken for new executive directors, with any internal candidates being required to participate in this formal process.

STRATEGIC REPORT GOVERNANCE FINANCIAL STATEMENTS

GENDER IDENTITY OR SEX OF THE BOARD AND EXECUTIVE MANAGEMENT

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number on the Executive Committee	Percentage of Executive Committee
Men	5	62	4	7	87
Women	3	38	0	1	13
Not specified/prefer not to say	—	—	—	—	—

ETHNIC BACKGROUND OF THE BOARD AND EXECUTIVE MANAGEMENT

Board member	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number on the Executive Committee	Percentage of Executive Committee
White British or other white (including minority-white groups)	8	100	4	8	100
Mixed multiple ethnic groups	—	—	—	—	—
Asian/Asian British	—	—	—	—	—
Black/African/Caribbean/Black British	—	—	—	—	—
Other ethnic group, including Arab	—	—	—	—	—

DIVERSITY, EQUITY AND INCLUSION

DIVERSITY POLICY
The Committee recognises the importance of diversity, equity and inclusion to the effective performance of the Board, and to our wider business operations. We are committed to promoting diversity across the Group in all forms, including diversity of gender, race, age, disability, neurodiversity, sexual orientation, education, social and cultural background, and belief.

From an overall Group perspective, we have set a target of increasing the proportion of females in all senior management positions across the businesses to 33% by 2027. Various initiatives were instigated during the year, including the provision of diversity and inclusion training for all of our senior leaders and the participants in our various development programmes, and the establishment of the Women's Inclusivity Network (WIN@Chemring). A number of these activities were supported by our female Board members. Further details of the progress made during the year are set out on pages 54 and 55.

With regards to the Board, the Committee is cognisant of the diversity targets set out in the updated Listing Rules which will apply to the Group in the financial year ending 31 October 2023. As referenced above, we have instigated a search for an additional non-executive director to further increase diversity on the Board. The Committee will also have due regard for the diversity targets when considering the replacements for the Senior Independent Director and I when our third three-year terms expire in 2025.

SUCCESSION PLANNING

The Committee is responsible for promoting effective succession planning for the Board and the Executive Committee, to ensure that the leadership of the business remains aligned to the Group's strategy.

During the year, an assessment of the succession plans for individuals in key leadership roles at the Group level and within the businesses, developed utilising the Group's established succession planning framework, was considered by the Committee. The need for more diversity within the talent pipeline was acknowledged by the Committee and this has now become a key focus of our people and DE&I strategy. Further details on the actions we are taking to address this are set out on pages 54 and 55.

The Committee is satisfied that appropriate succession plans are in place for the Board and key members of the Executive Committee covering emergency replacements. Longer-term appointments will be considered on a case-by-case basis, including internal candidates where available or external recruitment where deemed more appropriate. The Committee will commence planning for my replacement and the replacement of the Senior Independent Director in 2023.

Further details on our approach to succession planning and talent management are set out on pages 52 and 53.

Carl-Peter Forster
Chairman of the Nomination Committee
13 December 2022

Laurie Bowen
Chair of the Remuneration Committee

REMUNERATION COMMITTEE MEMBERS

- Laurie Bowen (Chair)
- Andrew Davies
- Carl-Peter Forster
- Stephen King
- Fiona MacAulay

MEMBERSHIP AND OPERATION OF THE REMUNERATION COMMITTEE

The Remuneration Committee has been established by the Board and is responsible for the remuneration of the executive directors, the Chairman and the leadership team at the next level. All members of the Committee are independent non-executive directors, save for Mr Forster who was independent on appointment to the Board.

The Committee's responsibilities are set out in its terms of reference, which are available on the Company's website.

Details of the attendance of members of the Committee at meetings held during the year are shown on page 87. The Group Legal Director & Company Secretary acts as secretary to the Committee, and the Group Chief Executive, attends meetings by invitation, but no executive director or other employee is present during discussions relating directly to their own remuneration.

INTRODUCTION

The directors' remuneration report for the year ended 31 October 2022 comprises:

- my annual report on the activities of the Remuneration Committee during the year;
- the annual report on remuneration, which explains how the current directors' remuneration policy was implemented in 2022;
- additional statutory information on remuneration arrangements;
- a summary of the directors' remuneration policy which was approved in March 2022; and
- an overview of how the policy will be implemented in 2023.

Our directors' remuneration policy was approved by shareholders at the 2022 Annual General Meeting, with 98.45% of shareholders having voted in favour. A summary of the approved policy which applied during the year is set out on pages 112 to 114. The full policy can be found in the 2021 directors' remuneration report in the 2021 annual report and accounts, which is published on the Company's website.

THE REMUNERATION COMMITTEE'S ACTIVITIES DURING THE YEAR

The table below summarises the Committee's key activities and decisions made during the year.

SUMMARY OF MAJOR ACTIVITIES AND DECISIONS OF THE COMMITTEE IN 2022

SALARY	- 2022 salary reviews for the executive directors and members of the senior leadership team
ANNUAL BONUS	- Consideration of the 2021 annual bonus plan outturn - Approval of the 2022 annual bonus plan financial targets and strategic objectives for the executive directors - Approval of the 2022 annual bonus plan payments
PERFORMANCE SHARE PLAN ("PSP")	- Consideration of vesting outcomes for PSP awards made in 2019 - Approval of 2022 PSP awards and performance conditions
GOVERNANCE AND POLICY	- Development of new directors' remuneration policy and consultation with shareholders on the policy which was approved at the Annual General Meeting in March 2022 - Reduction of the executive directors' pension contributions to align with those of the wider workforce

PERFORMANCE FOR 2022 AND REMUNERATION OUTCOMES

Despite the challenging macro-economic environment in which we continue to operate, 2022 has been another strong year of growth for Chemring, with revenue up by 13% on 2021 and both profit before tax and EPS growing by 11% and 19% respectively. This is despite operational and supply chain challenges as a result of the continuing impact of the legacy of CV-19, higher energy costs, labour market shortages, increased inflation and disruption within the US defence market. Overall, the Group has delivered robust performance, exceeding the expectations set at the start of the financial year and progressing against our strategic goal of balancing short-term performance with longer-term value creation.

Further progress has also been made in 2022 in relation to our sustainability agenda, with the continued successful implementation of our HSE strategy, improvement in our climate and carbon related disclosures, and continued focus on DE&I. It is in this context that the Remuneration Committee has reviewed the 2022 outturns.

Performance against the 2022 annual bonus and PSP targets is explained in more detail on pages 101 and 103 but in summary:

- *Annual bonus*: The annual bonus for 2022 was subject to EPS, operating cash flow and strategic objective measures. As a result of the strong financial performance during 2022, which resulted in both the stretch EPS growth and the operating cashflow targets being exceeded, 100% of the EPS metric and 100% of the operating cash flow metric will pay out. The Committee carefully assessed the performance of the executive directors against the common set of safety, people, governance, growth and strategic targets set at the beginning of the financial year and, as a result of all the targets either being achieved or exceeded, determined that the targets had been met at 90% of the maximum.

  The total bonus payments for 2022 are therefore 98% of maximum for each of the executive directors.
- *PSP awards made on 22 March 2019 (subject, in part, to TSR performance over the three-year period ended 21 March 2022):* The PSP awards granted to the

executive directors on 22 March 2019 were subject 50% to EPS targets and 50% to relative TSR targets. As disclosed in last year's report, based on strong compound EPS growth over the three-year EPS performance period to 31 October 2021 of circa 13.5% p.a., this part of the award was met in full. The three-year TSR performance period ended on 21 March 2022, and based on strong TSR performance, well into the top quartile versus the comparator companies, this part of the award also vested in full.

- *PSP awards made on 17 December 2019 (subject to performance over the three years ended 31 October 2022):* The PSP awards granted to the executive directors on 17 December 2019 were subject 50% to EPS targets and 50% to relative TSR targets. Based on strong EPS growth of circa 18.0% p.a. over the three-year performance period and TSR performance over the same period placing Chemring well into the top quartile versus the comparator group (ranking circa 30th out of the entire FTSE All Share companies excluding investment trusts), these awards will vest in full.

The Committee is satisfied the remuneration policy has operated as intended in relation to performance and remuneration outcomes for 2022, and did not use any discretion. In particular, with regards to the December 2019 PSP awards vesting, the Committee considered whether there was the potential for windfall gains on vesting. The Committee noted that Chemring had not been adversely impacted by CV-19 prior to the grant of the awards in December 2019 and that the share price performance over the full performance period had been underpinned by robust financial performance. As a result, the Committee determined that the level of payout was appropriate and reflective of Chemring's strong performance. In addition, in concluding that remuneration payments overall and the policy have operated appropriately, the Committee considered the bonuses payable across the Group, individual businesses' performance and the relativities between employees and executive directors in light of their roles and potential impact on the Group performance (this included considering pay ratios) and the wider stakeholder experience.

IMPLEMENTATION OF THE POLICY FOR 2023

Base salaries were reviewed in November 2022 and increases will be made effective from 1 January 2023.

As disclosed in full detail in the 2021 directors' remuneration report, the Committee undertook a full review of the Group Chief Executive's base salary in late 2021 and concluded that the appropriate salary level for his role should be £555,000. This salary recognised the growth in size and complexity of the Group that had taken place since the Group Chief Executive's appointment in July 2018 and his role in delivering the transformational change achieved through the period. Increasing his base salary followed a detailed consultation with institutional investors, and in recognition of the prevailing executive pay environment and the expectations of the leading shareholder advisory bodies, it was agreed that the increase would be phased and set at £520,000 with effect from 1 January 2022 and then increased to £555,000 with effect from 1 January 2023. The Committee retained discretion to further increase the salary beyond the £555,000 in line with a workforce-related cost-of-living increase. The Committee considered the continued growth of the Group and exceptional performance during the year alongside institutional investors calls for restraint in executive pay in the current high inflation environment and, following feedback from the Group Chief Executive, concluded that it would not be appropriate to further increase salary beyond £555,000. As a result his salary will be £555,000 from 1 January 2023. From 2024, save for any material change to the size and complexity of the Group, it is expected that any future increases for the Group Chief Executive will be limited to a workforce-related cost-of-living increase for the remainder of the current policy period.

With regard to pay increases for the Chief Financial Officer and the Group Legal Director & Company Secretary, they will both receive a cost-of-living related salary increase of 5% of salary effective 1 January 2023. The rate of increase was within the range of budgeted increases of 4% to 6% that were set by, and then agreed with, each individual operating business for 2023. In setting the rate of increase at 5% the Committee noted the Board's expectation that the salary budgets set within each business may need to be revised through 2023 as a result of the ongoing levels of CPI and inherent challenges in recruiting and retaining the best talent within the businesses. The Committee also considered it important to recognise the continued growth in the size and complexity of the Group relative to the market in their salary increases, and the exceptional performance of both individuals during the year. In light of the above, and consistent with other similarly high performing Group employees, the Committee was comfortable with the 5% of salary award.

Pension contributions for the executive directors have been reduced to 7.5% of salary, effective from 1 November 2022. The previous company pension contribution rates were 10% of salary in the case of the Group Chief Executive and 20% of salary in the case of the other two executive directors. The revised pension provision aligns with majority practice across the UK workforce. The annual bonus opportunity will continue to be 150% of salary for the Group Chief Executive and 125% of salary for the Chief Financial Officer and the Group Legal Director & Company Secretary. Performance measures are unchanged for 2023, with 40% subject to EPS, 40% operating cash flow and 20% common strategic objectives.

PSP awards will be granted in 2023 over 150% of salary for all directors. Performance will be subject 50% to EPS, 30% to relative TSR and 20% ESG metrics related to scope 1 and scope 2 emissions.

With regard to non-executive director fees, the Board Chair fee and the wider non-executive director base fee will be increased with effect from 1 January 2023 at 5% in line with the typical 4% to 6% increases being awarded across the Group.

EMPLOYEE PAY AND STAKEHOLDER ENGAGEMENT

With exceptionally high levels of inflation, especially in the UK and the US, we took a range of actions to support our employees in 2022. Given the nature of our operating model, which necessitates a level of independence within our US operations, our salary management responses varied by location based on our understanding of local needs. The actions taken included targeted salary increases, one-off payments and temporary salary increases, as well as increased financial education.

Outside of pay, as the designated non-executive director, I visited employees in numerous locations in the US and UK to understand their perception of working for Chemring and take their feedback for the Board. During these meetings, which included front line employees, supervisors, and middle and senior management, the topics covered included Chemring's approach to governance, including the workings of the Remuneration Committee, and how remuneration links to strategy through the business. Participants in these discussions had the opportunity to feed back on remuneration as well as wider employment considerations and all feedback received was presented to the appropriate divisional leadership, the relevant Board committees and the full Board. My role supplements the wider employee engagement process at Chemring, which includes regular all-hands meetings and team briefings and our on-line "Employee Voice" engagement tool. The above processes ensure that we understand the employee perspective and can take appropriate action as we did during 2022.

With regards to engagement with shareholders, we concluded a wide-ranging shareholder consultation process in early 2022 as part of seeking shareholder approval for our 2022 directors' remuneration policy and the changes noted above to the Group Chief Executive's salary. As a result of our engagement, and the refinements made to our policy and its application based on shareholder feedback, we received well over 95% support for our current policy and the 2021 directors' remuneration report. The Committee welcomes shareholder feedback and will continue to proactively engage in relation to any major changes to the application of our remuneration policy.

CONCLUSION

I hope you will find this report helpful and informative, and that you will support the resolution on the directors' remuneration report at our forthcoming Annual General Meeting. Please do not hesitate to contact me on executive directors' remuneration matters via Sarah Ellard, Group Legal Director & Company Secretary, at sarahe@chemring.co.uk.

Laurie Bowen

Chair of the Remuneration Committee
13 December 2022

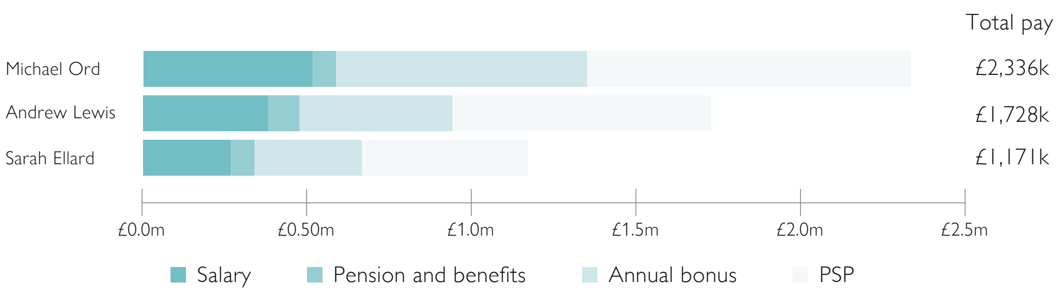
2022 REMUNERATION AT A GLANCE

2022 REMUNERATION YEAR IN SUMMARY

SALARY	Salary increases effective 1 January 2022 were as follows: - Michael Ord – 7.7% increase to £520,000 - Andrew Lewis – 3% increase to £380,358 - Sarah Ellard – 3% increase to £266,646
ANNUAL BONUS	Bonuses payable for 2022 performance as follows: - Michael Ord – 147% of salary (£764,400) - Andrew Lewis – 122.5% of salary (£465,939) - Sarah Ellard – 122.5% of salary (£326,641)
PERFORMANCE SHARE PLAN	AWARDS GRANTED Awards made in December 2021, valued at 150% of salary, with EPS, TSR and ESG-related performance conditions measured over a three-year period, and a two-year holding period post vesting. AWARDS VESTING Awards made in December 2019 to all three executive directors, which were subject to EPS and TSR performance conditions measured over the three years ended 31 October 2022, will vest in full.
SHAREHOLDING	Shareholding guideline of 200% of base salary (both in and post-employment, with the post-employment guideline based on the lower of the guideline and shares held on cessation of employment, which are held for two years).
CHAIRMAN AND NON-EXECUTIVE DIRECTOR FEES	Base fees for the Chairman and non-executive directors increased by 3% effective 1 January 2022.

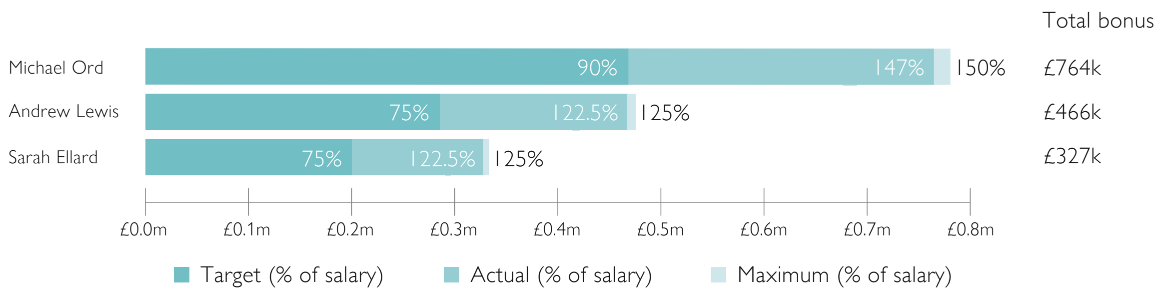
EXECUTIVE DIRECTORS' TOTAL PAY

This chart illustrates the total remuneration received by the executive directors in 2022.



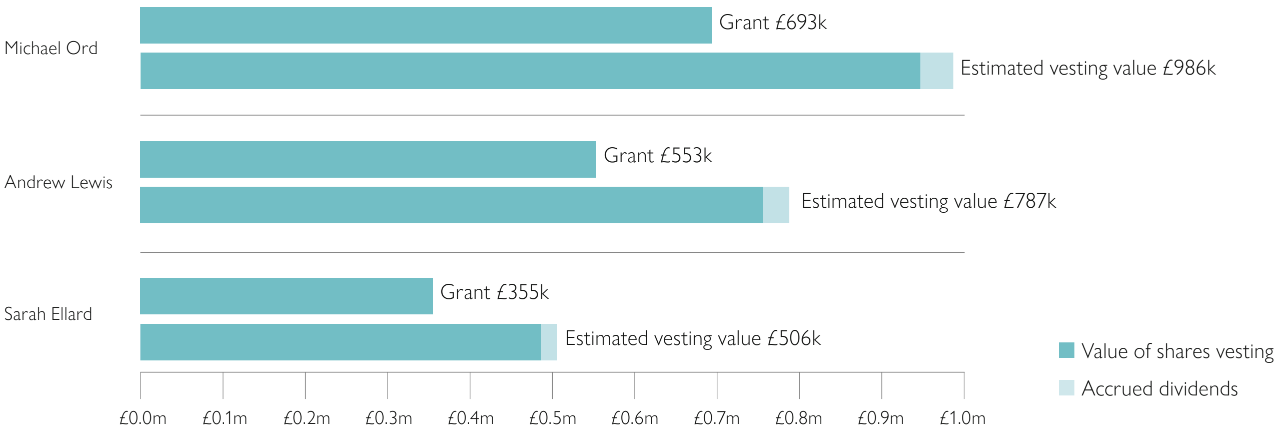
ANNUAL BONUS PLAN OUTCOME

This chart illustrates the bonuses payable for performance in 2022. 60% of the bonus amount is payable in cash and 40% will be satisfied by way of an award of shares deferred for three years.



PERFORMANCE SHARE PLAN OUTCOME

This chart illustrates the total value of each of the performance share plan awards granted to all three executive directors on 17 December 2019, which will vest in full. The grant value is based on the share price on the grant date and the vesting value is calculated on the same basis as in the directors' emoluments table on page 100.



This part of the report explains how the directors' remuneration policy was implemented in 2022. The auditor has reported on certain sections of this report and stated whether, in its opinion, those sections have been properly prepared in accordance with the Companies Act 2006. Those sections subject to audit are clearly indicated.

DIRECTORS' EMOLUMENTS (AUDITED)

The emoluments of all the directors who served during the year are shown below:

	Year	Salaries/ fees £'000	Taxable benefits[1] £'000	Pension benefits[2] £'000	Total fixed pay £'000	Bonus (cash and deferred shares)[3] £'000	PSP[4] £'000	Total variable pay £'000	Total £'000
Executives									
Michael Ord	**2022**	**514**	**21**	**51**	**586**	**764**	**986**	**1,750**	**2,336**
	2021	476	21	48	545	592	2,446	3,038	3,583
Andrew Lewis	**2022**	**379**	**20**	**76**	**475**	**466**	**787**	**1,252**	**1,728**
	2021	366	20	73	459	362	1,135	1,497	1,956
Sarah Ellard	**2022**	**265**	**20**	**53**	**338**	**327**	**506**	**833**	**1,171**
	2021	258	20	51	329	254	730	984	1,313
Non-executives									
Carl-Peter Forster	**2022**	**205**	**—**	**—**	**205**	**—**	**—**	**—**	**205**
	2021	200	—	—	200	—	—	—	200
Laurie Bowen[5]	**2022**	**71**	**—**	**—**	**71**	**—**	**—**	**—**	**71**
	2021	69	—	—	69	—	—	—	69
Andrew Davies[6]	**2022**	**66**	**—**	**—**	**66**	**—**	**—**	**—**	**66**
	2021	63	—	—	63	—	—	—	63
Stephen King[7]	**2022**	**66**	**—**	**—**	**66**	**—**	**—**	**—**	**66**
	2021	65	—	—	65	—	—	—	65
Fiona MacAulay	**2022**	**56**	**—**	**—**	**56**	**—**	**—**	**—**	**56**
	2021	55	—	—	55	—	—	—	55
Total remuneration	**2022**	**1,622**	**61**	**180**	**1,863**	**1,557**	**2,279**	**3,836**	**5,699**
	2021	1,552	61	172	1,785	1,208	4,311	5,519	7,304

NOTES:

1. Comprises an annual car allowance of £20,000 for Michael Ord and £19,350 for each of Andrew Lewis and Sarah Ellard, plus private medical insurance for each of the executive directors.
2. Michael Ord received a cash supplement of 10% of salary in lieu of occupational pension scheme membership and the other executive directors received a cash supplement of 20% of salary during the 2021 and 2022 financial years.
3. 40% of any bonus is delivered as an award of deferred shares.
4. The PSP awards granted in March 2019 to all three executive directors were based 50% on EPS performance, measured over the three years ended 31 October 2021 and 50% on TSR performance, measured over the three years ended 21 March 2022. These awards vested in full on 22 March 2022 and their value, which was included in the 2021 emoluments on an estimated basis, has been restated based on the share price on the date of vesting of 323p. The 2021 emoluments figure for Michael Ord also includes the PSP award granted in June 2018 which vested at 86.4% of maximum. The PSP awards granted in December 2019 to all three executive directors were also based 50% on EPS performance and 50% on TSR performance, both measured over the three years ended 31 October 2022. These awards will vest in full and their estimated values have been included in the 2022 emoluments based on the average share price over the three-month period ended 31 October 2022, equating to 308p per share. Of the PSP values for 2022, £253,392 of the value is attributable to share price appreciation for Michael Ord, £202,195 for Andrew Lewis and £130,049 for Sarah Ellard. The value of accrued dividends on each award has also been included in the 2022 emoluments.
5. Laurie Bowen received an additional fee of £5,000 per annum with effect from 1 January 2021 in respect of her appointment as the non-executive director responsible for employee engagement, which is included in the 2021 figures on a pro-rated basis. Mrs Bowen also receives an additional fee of £10,000 per annum for her appointment as Chair of the Remuneration Committee.
6. Andrew Davies received an additional fee of £10,000 per annum for his appointment as Senior Independent Director with effect from 1 January 2021, which is included in the 2021 figures on a pro-rated basis.
7. Stephen King receives an additional fee of £10,000 per annum for his appointment as Chairman of the Audit Committee.

Amounts shown above in the salaries and fees column relate to base salary in the case of executive directors and fees in the case of non-executive directors.

BASE SALARY AND BENEFITS PAID DURING THE YEAR (AUDITED)

Salaries for the executive directors were reviewed in November 2021 and increases were approved by the Remuneration Committee effective 1 January 2022.

The salaries of the executive directors during the year were therefore as follows:

Executive	Annual salary from 1 January 2021 to 31 December 2021	**Annual salary from 1 January 2022 to 31 October 2022**
Michael Ord	£483,000	**£520,000**
Andrew Lewis	£369,280	**£380,358**
Sarah Ellard	£258,880	**£266,646**

Michael Ord receives a cash allowance of £20,000 per annum in lieu of a company car and the other executive directors receive a cash allowance of £19,350 per annum.

DETAILS OF VARIABLE PAY OPPORTUNITY IN THE YEAR

ANNUAL BONUS (AUDITED)

80% of the annual bonus opportunity for 2022 was based on financial targets (namely earnings per share and operating cash flow), with 20% based on strategic objectives. No bonus is payable in respect of the strategic objectives unless the Committee is satisfied that this is justified by the Group's underlying performance, including *inter alia* levels of profitability and cash flow, as well as health and safety performance.

The Committee has consistently set challenging targets for the achievement of maximum bonuses. The financial targets for the 2022 bonus plan, compared with actual performance, were as follows:

	Weighting (80% of overall bonus)	Performance	Payout (% of element)	Target	Actual	Payout achieved (% of element)
Underlying diluted earnings per share (continuing operations)	**50%**	Threshold	0%	15.96p	19.7p	100%
		Target	50%	16.80p		
		Stretch	100%	17.64p		
Underlying operating cash flow (continuing operations)	**50%**	Threshold	0%	£78.38m	£90.1m	100%
		Target	50%	£82.50m		
		Stretch	100%	£86.63m		

The strategic objectives set in respect of the 2022 bonus plan were set on a consistent basis across the executive directors, members of the Executive Committee and each of the business unit leaders, focused as appropriate on their respective businesses. Details of the key achievements of the executive directors against the strategic objectives are set out below:

Strategic objective target	**Performance against targets**
SAFETY - Continued delivery of the Group's HSE Management System Framework Standard and associated assurance processes. - Minimising the Group's total recordable injury frequency rate. - Reducing the number of process safety events.	- Total recordable injury frequency rate of 0.78 (2021: 0.67), against a targetted limit of 1.0. - Process safety event rate (Level 3 & 2) 1.86 (2021: 1.73), against a targetted limit of 2.0. **Achieved in full.**
STRATEGY AND CORPORATE DEVELOPMENT - Deliver organic and inorganic growth plans for Roke. - Progress Roke USA customer penetration and sales, and identify inorganic growth acceleration options. - Secure down-selection on the JBTDS and AVCAD Programs of Record. - Commission new production facilities in Tennessee. - Develop value-creating opportunities for the Energetics portfolio. - Identify opportunities for expansion of the Sensors & Information portfolio.	- Delivered double digit revenue and profit growth at Roke and completed the Geollect acquisition to establish a position in the open-source intelligence sector and further advance inorganic growth. - Roke Futures formed to expand opportunities in law enforcement and government agencies, digital healthcare, civil aerospace, and critical infrastructure. - Good progress made by Roke USA with US DoD customers to build brand awareness and recognition and validate the technical performance of the Resolve and Perceive electronic warfare systems; however, despite strong performance, the challenging sales target set for Roke USA was not met. - Completed in-depth assessment of inorganic growth acceleration options for Roke USA. - Down-selected for low-rate initial production contract on the JBTDS program. - New production facilities in Tennessee commissioned and commenced first article production. - Continuing development of inorganic growth plans for the Energetics businesses to capture the opportunities resulting in market demand increasing following the invasion of Ukraine. - Significantly increased order intake across space and missiles markets. - Progress made on the development of new biological detection technologies. **Achieved at 75% of maximum in light of the Roke USA sales target not being achieved and delays in the AVCAD Program of Record.**

DETAILS OF VARIABLE PAY OPPORTUNITY IN THE YEAR continued

ANNUAL BONUS (AUDITED) continued

Strategic objective target	Performance against targets
PEOPLE - Ensure all employees have a voice in the business to strengthen our values-based culture – increase engagement and improve management responses to employee feedback. - Deliver improvements in business leadership and line management capabilities. - Develop more robust and diverse talent development and succession capabilities.	- Employee Voice participation continues to improve, with output now shared at senior teams' meetings in each business and at all-hands briefings; however, despite strong participation rates, providing access to all operational employees who do not have access to work email remains a work-in-progress. - Leading Our People and Aspire@Chemring development programmes deployed Group-wide. - Talent framework and succession planning process implemented across the Group, with associated personal and professional development plans in place for key roles. - Diversity, equity and inclusion training deployed Group-wide. **Achieved at 75% of maximum in light of the Employee Voice participation target not being met.**
GOVERNANCE - Continue to embed and strengthen the Group's governance framework. - Demonstrate progress in operational assurance statement improvement plans. - Complete implementation of the Chemring Compliance Portal ("the CCP"). - Continue deployment of common standards and practices to safeguard our people, information and technology.	- Updated Operational Framework issued in March 2022. - Two training modules on the Code of Conduct developed and rolled out. - Operational Assurance Statement process completed twice during the year, with scoring demonstrating progress in the businesses. - Third party due diligence module on the CCP fully operational for sales partners, and entry of service providers and suppliers into the CCP now substantially complete for non-US businesses. - US BACM SharePoint system (US equivalent of the CCP) established for the approval of US service providers and suppliers. - Group Security Committee established and appropriate governance arrangements implemented. - New standards issued on cyber-security, travel security and information security. **Achieved in full.**
SUSTAINABILITY - Develop and deploy carbon reduction plans to deliver the Group's commitment to be carbon neutral by 2030. - Reduce Group scope 1 and 2 emissions by 5%.	- Group-wide carbon reduction plan in-place and being delivered by all businesses. - Sustainability Committee established and co-ordinating Group-wide carbon reduction activities. - Group scope 1 and 2 emissions reduced by 7.3% and independently verified by ERM. **Achieved in full.**

The Committee assesses performance against the targets using both qualitative and quantitative data. The above reflects a full summary of the targets set and achievements delivered within the bounds of commercial confidentiality. Based on the performance against the five strategic targets detailed, the targets were met at 90% of the maximum.

Based on the above performance, bonuses are payable to the executive directors under the 2022 bonus plan as follows (audited):

Executive	Maximum bonus (% of salary)	Bonus paid in respect of financial targets (% of salary)	Bonus paid in respect of strategic objectives (% of salary)	Total bonus payment(£)[1]
Michael Ord	150%	120%	27.0%	£764,400
Andrew Lewis	125%	100%	22.5%	£465,939
Sarah Ellard	125%	100%	22.5%	£326,641

NOTE:
1. 40% of bonuses payable are satisfied by way of an award of deferred shares, vesting of which is subject only to continued service.

The Committee reviewed the outcomes in light of broader company and individual performance and stakeholder experience during the year and was satisfied that no discretion was necessary.

DEFERRED BONUS SHARES GRANTED DURING THE YEAR IN RESPECT OF THE 2021 BONUS

Details of the deferred bonus share awards granted on 14 December 2021 in relation to the bonus for the year ended 31 October 2021 are set out in the table below. The awards will vest subject to continued employment in three years.

Executive	Date of grant	Shares awarded	Face value of award[1]
Michael Ord	14 December 2021	83,481	£236,669
Andrew Lewis	14 December 2021	51,060	£144,755
Sarah Ellard	14 December 2021	35,795	£101,479

NOTE:
1. Value based on the closing share price of 283.5p on the date of grant.

PERFORMANCE SHARE PLAN (AUDITED)

Vesting of March 2019 PSP awards

The PSP awards granted to all three executive directors on 22 March 2019 were subject 50% to EPS and 50% to TSR performance conditions. Details of the performance against the EPS performance condition, which was met in full, is set out in the 2021 directors' remuneration report.

The performance period for the TSR performance condition ended on 21 March 2022. The Company's TSR over the TSR performance period ranked 1.4 against a median of 8.5 for the comparator group and therefore the TSR part of the award vested in full.

Details of the awards granted to the executive directors on 22 March 2019 are provided below (audited):

Executive	Vesting date	Number of shares at grant	Number of shares vested	Number of shares lapsed
Michael Ord	22 March 2022	421,568	421,568	—
Andrew Lewis	22 March 2022	336,391	336,391	—
Sarah Ellard	22 March 2022	216,361	216,361	—

Executive	Value of shares vested	Value of accrued dividends	Total value of awards vested[1]
Michael Ord	£1,361,664	£61,127	£1,422,791
Andrew Lewis	£1,086,543	£48,777	£1,135,320
Sarah Ellard	£698,846	£31,372	£730,218

NOTE:
1. Value based on the closing share price of 323p on 22 March 2022.

Vesting of December 2019 PSP awards

The PSP awards granted to all three executive directors on 17 December 2019 were made subject to the following performance conditions:

Measure	Threshold vesting	Full vesting
Total compound EPS growth per annum over the three financial years ended 31 October 2022 (50% of award)	5% p.a. (25% vests)	10% p.a. (100% vests)
Rank of the Company's TSR against the TSR of the members of the comparator group over the three financial years ended 31 October 2022 (50% of award)	Median ranking (25% vests)	Upper quartile ranking (100% vests)

The Group's compound EPS growth on continuing operations over the three financial years ended 31 October 2022 was 18.0% p.a. and 100% of the part of the award subject to the EPS measure will therefore vest on 17 December 2022. The Company's TSR over the same performance period was 70.9% against an upper quartile TSR of 24.9% for the comparator group, ranking the Group at 30.5 out of 378, and therefore the TSR part of the award will also vest in full on 17 December 2022.

Details of the awards granted to the executive directors on 17 December 2019 are provided below (audited):

Executive	Vesting date	Number of shares at grant	Number of shares to vest	Number of shares to lapse
Michael Ord	17 December 2022	307,142	307,142	—
Andrew Lewis	17 December 2022	245,085	245,085	—
Sarah Ellard	17 December 2022	157,635	157,635	—

Executive	Value of shares to vest	Value of accrued dividends	Total value of awards to vest[1]
Michael Ord	£945,997	£39,928	£985,925
Andrew Lewis	£754,862	£31,861	£786,723
Sarah Ellard	£485,516	£20,493	£506,009

NOTE:
1. Value estimated based on the average closing share price of 308p over the three-month period ended 31 October 2022.

DETAILS OF VARIABLE PAY OPPORTUNITY IN THE YEAR continued

PERFORMANCE SHARE PLAN (AUDITED) continued

PSP awards granted in the year

The following conditional awards of shares were granted to the executive directors under the PSP during the year:

Executive	Date of grant	Value of award	Closing share price on date of grant	Number of conditional shares awarded	Face value	% that vests at threshold	Vesting determined by
Michael Ord	15 December 2021	150% of salary	286.5p	255,555	£732,165	25%	50% EPS growth, 30% relative TSR performance and 20% ESG performance, as detailed below
Andrew Lewis	15 December 2021	150% of salary	286.5p	195,386	£559,781	25%	
Sarah Ellard	15 December 2021	150% of salary	286.5p	136,973	£392,428	25%	

The performance conditions applying to the awards made in December 2021 will be measured over three financial years commencing 1 November 2021 and are weighted 50% EPS growth, 30% relative TSR performance and 20% ESG performance.

The EPS performance condition will be measured as follows:

Total compound EPS growth over the three-year performance period	% of EPS part that may vest
Less than 5% p.a.	0%
5% p.a.	25%
Between 5% p.a. and 10% p.a.	On a straight-line basis between 25% and 100%
10% p.a. or more	100%

NOTE:
1. Earnings per share is calculated on an underlying, diluted and normalised basis, as specified by the Committee prior to grant.

The TSR performance condition will be measured as follows:

Rank of the Company's TSR against the TSR of the FTSE All-Share (excluding investment trusts) over the three-year performance period	% of TSR part that may vest
Below median	0%
Median	25%
Between median and upper quartile	On a straight-line basis between 25% and 100%
Upper quartile or above	100%

The ESG performance condition will be measured as follows:

Reduction in scope 1 and scope 2 emissions (market-based) over the three-year performance period	% of ESG part that may vest
Less than 15%	0%
15%	25%
Between 15% and 25%	On a straight-line basis between 25% and 100%
25% or more	100%

Any shares that vest in respect of the December 2021 awards will be subject to a two-year holding period (after allowing for the sale of sufficient shares to meet the tax and national insurance liability arising on vesting).

PENSION (AUDITED)

The following table sets out the pension benefits earned by the executive directors during the year. Only Sarah Ellard previously accrued benefits during her former membership of the Chemring Group Staff Pension Scheme.

Executive	Cash in lieu of pension contributions £'000	Total benefit accrued at 31 October 2021 Pension £'000 p.a.	Total benefit accrued at 31 October 2021 Cash £'000	Transfer value of accrued benefit at 31 October 2021 £'000	Total benefit accrued at 31 October 2022 Pension £'000 p.a.	Total benefit accrued at 31 October 2022 Cash £'000	Transfer value of accrued benefit at 31 October 2022 £'000	Increase in transfer value during year (less members' contributions) £'000	Value of benefit for single figure £'000
Michael Ord	51	—	—	—	**—**	**—**	**—**	**—**	**51**
Andrew Lewis	76	—	—	—	**—**	**—**	**—**	**—**	**76**
Sarah Ellard	53	24	72	461	**24**	**72**	**461**	**—**	**53**

NOTES:

1. Michael Ord received a 10% cash supplement in lieu of pension and the other executive directors received a 20% cash supplement during the 2021 and 2022 financial years. With effect from I November 2022 the cash supplement paid to all of the executive directors has been reduced to 7.5% to align with the workforce rate.
2. Transfer values represent liabilities of the applicable scheme, and do not represent sums paid to individuals.
3. Transfer values have been calculated in accordance with the Occupational Pension Scheme (Transfer Value) Regulations 1996.
4. Sarah Ellard left pensionable service with the Chemring Group Staff Pension Scheme on 6 April 2010 and therefore has not accrued additional pension over the year. The accrued benefits shown are the benefits at the date of exit. The scheme provided pension at a rate of 1/80th of final pensionable salary plus a cash lump sum of 3/80ths for each year of membership. Final pensionable salary was capped at the HMRC notional earnings cap, and the scheme assumed a normal retirement age of 65. Early retirement is permissible from age 55 but accrued benefits are reduced accordingly using the early retirement factors in force at the date of early retirement.

PAYMENTS TO PAST DIRECTORS AND PAYMENTS FOR LOSS OF OFFICE

No payments were made to past directors and no payments were made for loss of office during the year.

REMUNERATION IN THE WIDER WORKFORCE

In addition to determining the remuneration arrangements for the executive directors, the Committee considers and approves the base salaries for eight senior executives, excluding those based in the US. The Committee also receives information on general pay levels and policies across the Group. The Committee, therefore, has due regard to salary levels across the Group in applying its remuneration policy.

The Group comprises a number of businesses, some of which have been developed through organic growth, others of which have been acquired over time. As a result there are diverse remuneration arrangements in place across the Group. An example of this is pension provision, where contributions range from 4% to 20% of salary depending on location and length of service. Where possible the business aims to consolidate and normalise its remuneration approach, particularly in relation to fixed pay arrangements, taking into account regional and sector-related variations.

In the US, the US Board has established a Compensation Committee to set the remuneration arrangements for the senior leadership of the US businesses, in accordance with the requirements of our Special Security Agreement with the US Government. The US Compensation Committee consults with the Remuneration Committee where appropriate.

The annual bonus plan for the senior leadership is typically operated for around 80 employees and works in a similar fashion to that for the executive directors, albeit with greater focus on business unit performance where appropriate. Therefore, overall bonus outcomes maintain a level of consistency with Group level performance but allow for differentiated outcomes based on business unit and individual performance.

Below Board, the performance share plan is also operated, in order to allow us to recruit and retain the best talent. Employees who are considered to have a direct influence on Group level performance participate in this plan and in 2022 this included 52 employees.

All UK employees are encouraged to participant in the UK Sharesave Plan. At present over 500 employees participate in the UK Sharesave Plan.

DIRECTORS' SHAREHOLDINGS (AUDITED)

Shareholding guidelines apply to executive directors during employment and post cessation of employment. Executive directors are expected to build up and maintain a shareholding in the Company equivalent to 200% of base salary, by retaining at least 50% of after-tax vested PSP awards until such time as the guidelines have been met. The executive directors are also required to hold shares to the value of the shareholding guideline (i.e. 200% of base salary or their existing shareholding if lower at the time) for two years post-cessation of employment. The shareholding will be assessed at the time of stepping down from the Board.

The interests of the directors in the ordinary shares of the Company at 31 October 2022 are shown below. All are beneficial holdings.

				Unvested and subject to performance conditions under the PSP					
Executive	Legally owned (number of shares)	Value of legally owned shares as % of salary[1]	Guideline met	Dec 2019 award	Dec 2020 award	Dec 2021 award	Total at 31 October 2022	Deferred bonus share awards	Sharesave options
Michael Ord	447,994	260%	Yes	307,142	220,375	255,555	783,072	255,803	16,853
Andrew Lewis	401,152	319%	Yes	245,085	175,848	195,386	616,319	161,062	8,910
Sarah Ellard	222,135	252%	Yes	157,635	125,670	136,973	420,278	106,547	8,910
Carl-Peter Forster	30,000	—	—	—	—	—	—	—	—
Laurie Bowen	15,000	—	—	—	—	—	—	—	—
Andrew Davies	—	—	—	—	—	—	—	—	—
Stephen King	35,500	—	—	—	—	—	—	—	—
Fiona MacAulay	—	—	—	—	—	—	—	—	—

NOTE:
1. Based on the number of shares legally owned, prevailing base salary and share price of 302p at 31 October 2022.

The directors' share interests at 31 October 2022 include shares held by the directors' connected persons, if any, as required by the Regulations. There have been no changes to the directors' interests in shares since 31 October 2022.

OUTSTANDING PSP AWARDS (AUDITED)

	Number of shares under award						
Executive	At 1 November 2021	Awarded during the year	Lapsed during the year	Vested during the year	At 31 October 2022	Date of vesting	Closing share price on date of grant (p)
Michael Ord	421,568	—	—	(421,568)	—	22 March 2022	139.6
	307,142	—	—	—	307,142[1]	17 December 2022	225.5
	220,375	—	—	—	220,375	16 December 2023	300.0
	—	255,555	—	—	255,555	15 December 2024	286.5
	949,085	**255,555**	**—**	**(421,568)**	**783,072**		
Andrew Lewis	336,391	—	—	(336,391)	—	22 March 2022	139.6
	245,085	—	—	—	245,085[1]	17 December 2022	225.5
	175,848	—	—	—	175,848	16 December 2023	300.0
	—	195,386	—	—	195,386	15 December 2024	286.5
	757,324	**195,386**	**—**	**(336,391)**	**616,319**		
Sarah Ellard	216,361	—	—	(216,361)	—	22 March 2022	139.6
	157,635	—	—	—	157,635[1]	17 December 2022	225.5
	125,670	—	—	—	125,670	16 December 2023	300.0
	—	136,973	—	—	136,973	15 December 2024	286.5
	499,666	**136,973**	**—**	**(216,361)**	**420,278**		

NOTE:
1. As explained above, these awards will vest in full on 17 December 2022.

PERFORMANCE CONDITIONS FOR OUTSTANDING PSP AWARDS

	Measure	Director	Executive directors' award values	Threshold vesting	Full vesting
Awards made on 17 December 2019	Total compound EPS growth per annum over the three financial years ended 31 October 2022 (50% of award)	Michael Ord Andrew Lewis Sarah Ellard	150% of salary	5% p.a. (25% vests)	10% p.a. (100% vests)
	Rank of the Company's TSR against the TSR of the FTSE All-Share (excluding investment trusts) over the three financial years ended 31 October 2022 (50% of award)			Median ranking (25% vests)	Upper quartile ranking (100% vests)
Awards made on 16 December 2020	Total compound EPS growth per annum over the three financial years ended 31 October 2023 (50% of award)	Michael Ord Andrew Lewis Sarah Ellard	150% of salary	5% p.a. (25% vests)	10% p.a. (100% vests)
	Rank of the Company's TSR against the TSR of the FTSE All-Share (excluding investment trusts) over the three financial years ended 31 October 2023 (50% of award)			Median ranking (25% vests)	Upper quartile ranking (100% vests)
Awards made on 15 December 2021	Total compound EPS growth per annum over the three financial years ended 31 October 2024 (50% of award)	Michael Ord Andrew Lewis Sarah Ellard	150% of salary	5% p.a. (25% vests)	10% p.a. (100% vests)
	Rank of the Company's TSR against the TSR of the FTSE All-Share (excluding investment trusts) over the three financial years ended 31 October 2024 (30% of award)			Median ranking (25% vests)	Upper quartile ranking (100% vests)
	Reduction in scope 1 and scope 2 emissions (market based) over the three financial years ended 31 October 2024 (20% of award)			15% (25% vests)	25% (100% vesting)

OUTSTANDING DEFERRED BONUS SHARE AWARDS (AUDITED)

	Number of shares under award						
Executive	At 1 November 2021	Awarded during the year	Lapsed during the year	Vested during the year	At 31 October 2022	Date of vesting	Closing share price on date of grant (p)
Michael Ord	100,333	—	—	—	100,333	16 December 2022	210.0
	71,989	—	—	—	71,989	15 December 2023	300.0
	—	83,481	—	—	83,481	14 December 2024	283.5
	172,322	**83,481**	**—**	**—**	**255,803**		
Andrew Lewis	64,048	—	—	—	64,048	16 December 2022	210.0
	45,954	—	—	—	45,954	15 December 2023	300.0
	—	51,060	—	—	51,060	14 December 2024	283.5
	110,002	**51,060**	**—**	**—**	**161,062**		
Sarah Ellard	41,195	—	—	—	41,195	16 December 2022	210.0
	29,557	—	—	—	29,557	15 December 2023	300.0
	—	35,795	—	—	35,795	14 December 2024	283.5
	70,752	**35,795**	**—**	**—**	**106,547**		

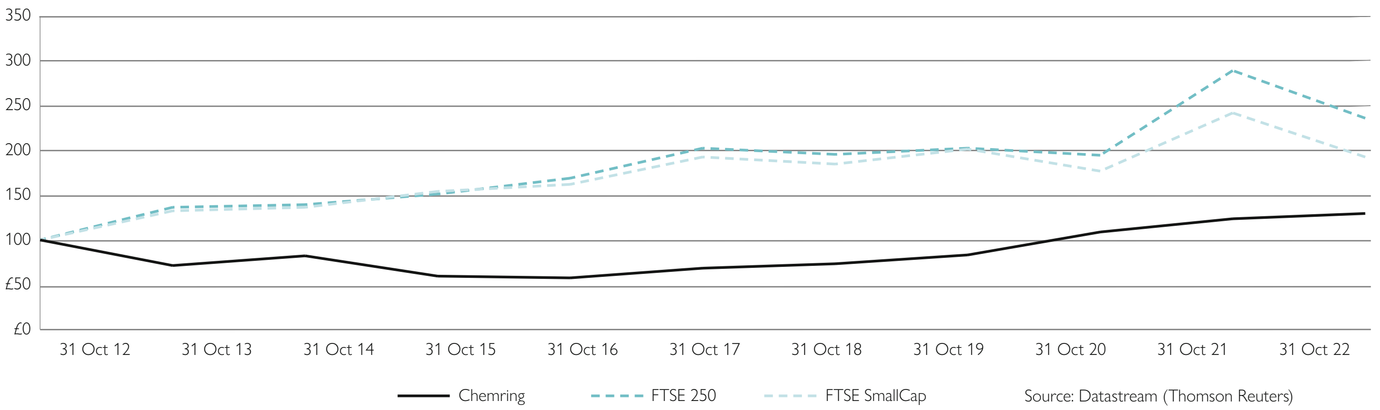
OUTSTANDING SHARESAVE OPTIONS (AUDITED)

Executive	At 1 November 2021	Awarded during the year	Lapsed during the year	Vested during the year	At 31 October 2022	Exercise price	Exercise date
	Number of shares under award						
Michael Ord	16,853	—	—	—	16,853	178p	1 October 2023 – 31 March 2024
	16,853	**—**	**—**	**—**	**16,853**		
Andrew Lewis	8,910	—	—	—	8,910	202p	1 October 2023 – 31 March 2024
	8,910	**—**	**—**	**—**	**8,910**		
Sarah Ellard	8,910	—	—	—	8,910	202p	1 October 2023 – 31 March 2024
	8,910	**—**	**—**	**—**	**8,910**		

TOTAL SHAREHOLDER RETURN PERFORMANCE GRAPH

The following graph shows the Company's cumulative TSR over the last ten financial years relative to the FTSE 250 and FTSE SmallCap Indexes. The FTSE 250 has been selected by the Committee for this comparison because it provides the most appropriate measure of performance of listed companies of a similar size to the Company. The FTSE SmallCap has been shown in previous years and has been included this year for the purpose of continuity.

The graph shows the value, by 31 October 2022, of £100 invested in Chemring Group PLC on 31 October 2012 compared with the value of £100 invested in the FTSE 250 and FTSE SmallCap. The other points are the values at intervening financial year ends.



CHIEF EXECUTIVE'S REMUNERATION TABLE

The total remuneration figures for the Group Chief Executive during each of the last ten financial years are shown in the table below. Michael Flowers replaced Mark Papworth as Group Chief Executive on 24 June 2014 and Michael Ord replaced Michael Flowers on 1 July 2018.

The total remuneration figure for 2014 includes the payments for loss of office made to Mark Papworth. The figure for 2018 includes a full year's salary and benefits for Michael Flowers.

The total remuneration figure for each year includes the annual bonus based on that year's performance and, where applicable, vested PSP awards based on the three-year performance period ending in the relevant year. The annual bonus payout and PSP award vesting level as a percentage of the maximum opportunity are also shown for each of these years.

	Mark Papworth	Mark Papworth/ Michael Flowers	Michael Flowers			Michael Flowers/ Michael Ord	Michael Ord			
	2013	2014	2015	2016	2017	2018	2019	2020	2021	**2022**
Total remuneration (£'000)	785	841	507	855	831	969	1,021	1,045	3,583	**2,336**
Annual bonus (% of maximum)	40%	50%	0%	68.3%	59.5%	0%	98%	98%	98%	**98%**
PSP awards vesting (% of maximum)	0%	0%	0%	0%	0%	35%	0%	0%	86.4%/ 100%	**100%**

PERCENTAGE CHANGE IN THE DIRECTORS' REMUNERATION

The table below shows the annual percentage change in the total remuneration (excluding the value of any PSP awards and pension benefits receivable in the year) for each of the directors between the 2019 and 2022 financial years, compared to that of the average for all eligible employees of the Group.

	2019 vs 2020			2020 vs 2021			2021 vs 2022		
	Salary	Benefits	Annual bonus	Salary	Benefits	Annual bonus	Salary	Benefits	Annual bonus
Group Chief Executive	2.3%	0%	2.5%	8.2%	0%	9.6%	8.0%	0%	29.1%
Chief Financial Officer	2.6%	0%	2.7%	4.6%	0%	4.9%	3.6%	0%	28.7%
Group Legal Director & Company Secretary	2.3%	0%	2.8%	14.7%[1]	0%	14.4%	2.7%	0%	28.7%
Carl-Peter Forster	0%	N/A	N/A	0%	N/A	N/A	1.0%	N/A	N/A
Laurie Bowen	N/A	N/A	N/A	11.3%[2]	N/A	N/A	2.9%	N/A	N/A
Andrew Davies	(12.6%)	N/A	N/A	8.6%[3]	N/A	N/A	4.8%	N/A	N/A
Stephen King	0%	N/A	N/A	0%	N/A	N/A	1.5%	N/A	N/A
Fiona MacAulay	N/A	N/A	N/A	N/A[4]	N/A	N/A	1.8%	N/A	N/A
Average of other employees	4.0%	0%	3.0%	5.2%	5.2%	34.8%	3.2%	(18.0%)	5.0%

NOTES:

1. The Group Legal Director & Company Secretary's salary was increased pro-rata to reflect her resumption of full-time working hours with effect from 1 November 2020.
2. The percentage increase in the fees paid to Laurie Bowen between 2020 and 2021 reflects the additional fees paid to her following her appointment as Chair of the Remuneration Committee on 4 March 2020 and the fee paid to her as the non-executive director with responsibility for employee engagement from 1 January 2021.
3. The percentage increase in the fees paid to Andrew Davies between 2020 and 2021 reflects the additional fees paid to him as Senior Independent Director from 1 January 2021.
4. Fiona MacAulay was appointed as a non-executive director on 3 June 2020. Non-executive directors' fees did not increase between 2020 and 2021.

CHIEF EXECUTIVE'S PAY RATIO

The table below shows how the Group Chief Executive's single remuneration figure from the 2022 financial year compares to equivalent single figure remuneration for full-time equivalent UK employees ranked at the 25th, 50th and 75th percentile.

The Committee considered the calculation approaches as set out in the Regulations and elected to use Method A, as it is considered to be the most appropriate and robust way to calculate the ratio. The calculation was based on:

- actual base salary, benefits, bonus and long-term incentive awards for the year ended 31 October 2022 for UK employees as at 31 October 2022, with salaries for part-time employees annualised on a full-time equivalent basis to allow equal comparisons; and
- employer pension contributions.

No components of pay and benefits were omitted for the purpose of the calculations; however, joiners and leavers during the year were excluded from the calculations.

		Total remuneration		
Year	Methodology	25th percentile (lower quartile) pay ratio	50th percentile (median) pay ratio	75th percentile (upper quartile) pay ratio
2022	Method A	68.3	46.8	29.7
2021	Method A	116.3	76.1	49.2
2020	Method A	39.9	25.0	15.8

	Salary			Total remuneration		
Year	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
2022	£29,768	£42,600	£56,004	£34,196	£49,941	£78,523

The Committee is mindful that pay ratios, however calculated, are a useful reference point but cannot be considered in isolation. Any movement in ratios will be reviewed by the Committee to understand the causes and longer-term trends will be monitored.

The pay ratios increased in 2021 as a result of, exceptionally, the inclusion of two PSP awards vesting in relation to the year. One of the PSP awards related to a one-off award granted to the Group Chief Executive on appointment, which vested at 86.4% of maximum, and the second PSP award related to the normal PSP grant, which vested at 100% of maximum. For 2022, there is only one PSP award included in the Group Chief Executive's total single figure of remuneration, which vested in full. Whilst the Group Chief Executive also received a salary increase for 2022 and an increase to his annual bonus entitlement, the pay ratio has decreased primarily as a result of the total PSP value reducing this year.

The reward policies and practices across the Group are considered by the Committee in the design process and implementation of the remuneration policy each year for the executive directors. On this basis, the Committee is satisfied that the median pay ratio is consistent with the pay, reward and progression policies against all employees.

RELATIVE IMPORTANCE OF SPEND ON PAY

The following table shows the Company's actual spend on pay (for all employees) relative to dividends and retained profits:

	2022 £m	2021 £m	% change
Staff costs	**169.7**	146.0	+16%
Dividends	**14.4**	11.9	+21%
Retained profits	**87.2**	56.2	+55%

The dividends figures relate to amounts payable in respect of the relevant financial year.

Retained profits reflect the underlying success of the Group and includes the profit generated in the relevant financial year.

ADVISERS TO THE REMUNERATION COMMITTEE

Korn Ferry were appointed by the Remuneration Committee to advise on remuneration and incentive plan related matters from 4 March 2021. Korn Ferry is a signatory to the Remuneration Consultants' Group Code of Conduct. The Committee has reviewed the nature of the services provided by Korn Ferry and is satisfied that no conflict of interest exists in the provision of these services. The Company received no other services from Korn Ferry during the year. The total fees paid to Korn Ferry in respect of the services to the Committee during the year were £25,720 (2021: £52,500). Fees were determined based on the scope and nature of the projects undertaken for the Committee.

The Committee reviews the performance and independence of its advisers on an annual basis.

The Committee consults internally with the Group Chief Executive (Michael Ord) and the Group Legal Director & Company Secretary (Sarah Ellard). No executive is involved in discussions on their own pay.

SHAREHOLDER VOTING ON THE DIRECTORS' REMUNERATION POLICY AT THE 2022 ANNUAL GENERAL MEETING

The directors' remuneration policy is subject to a binding vote by shareholders every three years. At the Annual General Meeting held on 3 March 2022, the resolution relating to the directors' remuneration policy received the following votes from shareholders:

For	231,710,461	98.45%
Against	3,654,614	1.55%
Total votes cast (for and against excluding withheld votes)	235,365,075	100.0%
Votes withheld[1]	7,154,172	0.01%
Total votes cast (including withheld votes)	242,519,247	

NOTE:
1. A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast "for" and "against" a resolution.

SHAREHOLDER VOTING ON THE DIRECTORS' REMUNERATION REPORT AT THE 2022 ANNUAL GENERAL MEETING

The directors' remuneration report is subject to an advisory vote by shareholders every year. At the Annual General Meeting held on 3 March 2022, the resolution relating to the directors' remuneration report received the following votes from shareholders:

For	233,755,408	99.32%
Against	1,598,867	0.68%
Total votes cast (for and against excluding withheld votes)	235,354,275	100.0%
Votes withheld[1]	7,164,972	
Total votes cast (including withheld votes)	242,519,247	

NOTE:
1. A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast "for" and "against" a resolution.

KEY OBJECTIVES

In developing a policy for the executive directors' remuneration, the Remuneration Committee seeks to:

- maintain a competitive package of rewards required to promote the long-term success of the Company, without being excessive by reference to market rates across comparator companies, and neither encouraging or rewarding inappropriate risk taking;
- ensure performance-related elements:
  - > are transparent, stretching and rigorously applied;
  - > form a significant proportion of the total remuneration package of each executive director; and
  - > align the interests of executives with those of shareholders, by ensuring that a significant proportion of remuneration is performance related and delivered in shares; and
- set remuneration in the context of the core values of the business and with the aim of alignment with culture.

The remuneration policy for the executive directors and other senior executives is also designed with regard to the policy for employees across the Group as a whole. However, there are some differences in the structure of the remuneration policy for executive directors and other senior executives. In general, these differences arise from the development of remuneration arrangements that are market-competitive for the various categories of individuals. They also reflect the fact that, in the case of the executive directors and other senior executives, a greater emphasis tends to be placed on performance-related pay in the market.

DECISION MAKING PROCESS

The Committee periodically reviews the policy and its implementation to ensure it continues to allow us to incentivise and reward the executive directors to achieve our strategy in both the short and long-term. The views of our shareholders and investor representative bodies are taken into account in determining the policy and implementation each year as well as the UK Corporate Governance Code and market practice. The Committee also has regard to the general pay levels and policies across the Group and takes these into account when setting executive director pay.

Operation of the policy is considered annually for the year ahead in light of the strategy and wider stakeholder experience, including the level of salary increase, the types of performance metrics, and the weightings and target ranges for incentives.

CONSIDERATION OF CODE PROVISIONS IN DETERMINING POLICY

When developing the current directors' remuneration policy for the executive directors, the Remuneration Committee also addressed the following factors outlined in the 2018 Code:

FACTOR	HOW THIS HAS BEEN ADDRESSED
CLARITY Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	The Chair of the Remuneration Committee consults with major shareholders on the directors' remuneration policy, which is subject to shareholder approval every three years, and on any significant proposed changes to the policy. The employee engagement initiatives implemented by the Board provide an opportunity for employees to express their views on a wide range of topics, including directors' remuneration arrangements.
SIMPLICITY Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	The Company operates only two incentive plans for the executive directors – an annual bonus plan to incentivise and reward short-term performance and the PSP, which incentivises long-term performance and aligns management's interests with shareholder interests. The annual bonus plan structure for the executive directors is broadly replicated in the bonus arrangements for the business unit leaders and their direct reports.
RISK Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	The annual bonus plan includes non-financial strategic objectives covering the management of risks in areas such as safety and compliance, as well as requiring bonus deferral. The inclusion of broad malus and clawback provisions in the incentive arrangements and the discretion reserved by the Committee to override formulaic outcomes also mitigate the risk of inappropriate rewards.
PREDICTABILITY The range of possible values of rewards to individual directors and any other limits of discretions should be identified and explained at the time of approving the policy.	The directors' remuneration policy imposes maximum levels for annual bonus payments and PSP awards, and sets out the potential remuneration scenarios for executive directors at differing levels of performance. The Remuneration Committee's discretions are also detailed in the policy.
PROPORTIONALITY The link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.	The annual bonus plan targets and performance conditions associated with PSP awards provide a direct link between individuals' incentive rewards and delivery of strategic objectives which underpin the long-term performance of the Company. The annual bonus plan and the PSP require threshold levels of performance before any payments are made or awards vest, and the Remuneration Committee retains discretion to override formulaic outcomes if deemed appropriate.
ALIGNMENT TO CULTURE Incentive schemes should drive behaviours consistent with company purpose, values and strategy.	The annual bonus plan includes non-financial strategic objectives which embrace the Company's values of Safety, Excellence and Innovation, and which are also aligned to the delivery of the Group's agreed strategy. The performance conditions under the PSP also incentivise long-term performance through the delivery of strategy and shareholder value.

POLICY SUMMARY

The table below provides a summary of the current directors' remuneration policy. The full policy was approved by shareholders at the Annual General Meeting held on 3 March 2022 and can be found in the 2021 directors' remuneration report included in the 2021 report and accounts on our website (https://www.chemring.com/investors/annual-reports/2021). The policy remains valid until the 2025 Annual General Meeting.

Further details of the policy are set out on pages 115 to 116, and an explanation of how the policy will be applied in 2023 is set out on pages 117 to 119.

EXECUTIVE DIRECTORS

Element	Purpose and link to strategy	Operation	Maximum	Performance assessment
Salary	- Reflects the performance of the individual, their skills and experience over time, and the responsibilities of the role - Provides an appropriate level of basic fixed income, avoiding excessive risk arising from over-reliance on variable income	- Normally reviewed annually with effect from 1 January - Benchmarked periodically against companies with similar characteristics within the same sector - Salaries take account of complexity of the role, market competitiveness, Group performance and the increases awarded to the wider workforce	- Salary increases will normally be in line with those received by the wider workforce - More significant increases may be awarded at the discretion of the Committee, for example where there is a change in responsibilities, to reflect individual development and performance in the role	- None, although overall individual and company performance is a factor considered when setting and reviewing salaries
Bonus	- Incentivises annual delivery of financial, strategic and personal goals - Maximum bonus only payable for achieving demanding targets - Delivery of a proportion of bonus in deferred shares plus the ability to receive dividend equivalents provides alignment with shareholders' interests and assists with retention	- Paid in cash, with up to 40% deferred as a conditional award of deferred shares - Vesting of deferred shares is subject to continued employment (save in "good leaver" scenarios) at the end of three years from the award of the bonus - The payment of any earned bonus remains ultimately at the discretion of the Committee - Non-pensionable - Executives are entitled to receive, on vesting of deferred share awards, the value of dividend payments that would otherwise have been paid on the deferred shares during the deferral period	- Chief Executive – 150% of salary - Other executive directors – 125% of salary	- Mix of Group financial and non-financial objectives; financial objectives will determine the majority of the award and will typically include a measure of profitability and cash flow, although the Committee has discretion to select other metrics - Non-financial objectives will be measurable and linked to goals that are consistent with the Group's strategy - Payment of the non-financial objectives element will be subject to an underpin based on the Committee's assessment of underlying business performance, including *inter alia* levels of profitability and cash flow, as well as health and safety performance - Performance below the threshold for each financial target results in zero payment in respect of that element. Payment rises from 0% to 100% of the maximum opportunity for levels of performance between threshold and maximum with 50% of the maximum normally payable for on-target performance - Includes a malus and clawback mechanism[8]

Element	Purpose and link to strategy	Operation	Maximum	Performance assessment
Long-term incentive plan (performance share plan – "PSP")	- Incentivises executives to achieve targets aligned to the Group's main strategic objectives of delivering sustainable growth and shareholder returns - Delivery of awards in shares plus the ability to receive dividend equivalents helps align executives' rewards with shareholders' interests	- Annual grants of shares, which vest subject to the Group's performance measured over at least three years - Any shares vesting must be held by the executives for a further period of two years - Executives are entitled to receive the value of dividend payments that would otherwise have been paid on vested awards - All awards are subject to the discretions given to the Committee in the plan rules during the vesting period	- Normally 150% of base salary (although grants of up to 200% of base salary may be made in exceptional circumstances such as on recruitment)	- Awards will be subject to a combination of long-term measures which are aligned to the shareholder experience and may include financial metrics (such as EPS), shareholder value metrics (such as TSR), capital efficiency measures (such as ROCE) and ESG or strategic measures - The Committee will have discretion to set different measures and weightings for awards in future years to best support the strategy of the business at that time - Targets for each performance measure are set by the Remuneration Committee prior to each grant. Targets will be based on a sliding scale where appropriate - For each measure, performance below threshold results in zero payment. Payment rises from 25% to 100% of the maximum opportunity for that measure for levels of performance between threshold and maximum - Includes a malus and clawback mechanism[8]
All-employee share scheme	- UK employees, including executive directors, are encouraged to acquire shares by participating in the Group's all-employee share plan – the UK Sharesave Plan	- The UK Sharesave Plan has standard terms	- Participation limits are those set out by HM Revenue & Customs from time to time	- N/A
Pension	- Provides retirement benefits that reward sustained contribution	- Ongoing pension provision is in the form of a cash supplement, subject to auto-enrolment in the Group's defined contribution scheme - Longer-serving employees have accrued benefits under the Group's defined benefit scheme, which was closed to future accrual for the executive directors on 6 April 2010	- Legacy arrangements: 20% of base salary cash supplement contribution paid in lieu of occupational pension scheme membership - New appointments: 10% of base salary cash supplement contribution paid in lieu of occupational pension scheme membership - All UK employees, including the executive directors, are subject to auto-enrolment into the Group's defined contribution scheme, with an employer contribution of a minimum of 4% of base salary. If executives do not opt out of this scheme, their cash supplement will be reduced by 6%. - From 1 November 2022, incumbent executive director pensions will reduce to the typical workforce rate via a cliff-edge reduction	- N/A
Other benefits	- Provides a competitive package of benefits that assists with recruitment and retention	- Main benefits currently provided to UK executives include but are not limited to a car allowance, life assurance and private medical insurance - Executive directors are eligible for other benefits which may also be introduced for the wider workforce on broadly similar terms	- Cash allowance in lieu of company car of up to £25,000 per annum - Other benefits will be in line with market. The value of each benefit is based on the cost to the Company and is not pre-determined - Any reasonable business-related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit	- N/A

POLICY SUMMARY continued
EXECUTIVE DIRECTORS continued

Element	Purpose and link to strategy	Operation	Maximum	Performance assessment
Minimum shareholding requirements	- Aligns the interests of the executive directors with those of shareholders	- Executive directors are expected to build up and maintain a shareholding in the company equivalent to 200% of base salary, by retaining at least 50% of the after-tax gain on vested PSP awards until such time as the guidelines have been met - From November 2021, the executive directors will be required to hold shares to the value of the shareholding guideline (i.e 200% of base salary or their existing shareholding if lower at the time) for two years post-cessation of employment. The shareholding will be assessed at the point of stepping down from the Board		

NOTES:
1. A description of how the Company intends to implement the policy set out in this table for the forthcoming year is set out on pages 117 to 119.
2. The all-employee share plan does not have performance conditions. UK-based executive directors are eligible to participate in the UK Sharesave Plan on the same terms as other employees.
3. The Committee may make minor amendments to the policy set out above for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation, without obtaining shareholder approval for that amendment.
4. The Regulations and investor guidance encourages companies to disclose a cap within which each element of the directors' remuneration policy will operate. Where maximum amounts for elements of remuneration have been set within the policy, these will operate simply as caps and are not indicative of any aspiration.
5. While the Committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality, whether paid for by the Company or another, and business travel for directors and in exceptional circumstances their families, may technically come within the applicable rules, and so the Committee expressly reserves the right for the Committee to authorise such activities within its agreed policies (and to discharge any related tax liability).
6. The annual bonus and PSP are subject to malus and clawback provisions in the event of misconduct, error in calculation of performance, material misstatement of results, company insolvency or serious reputational damage to the Group.

COMMITTEE DISCRETIONS

The Committee operates the Group's variable incentive plans according to their respective rules and in accordance with governing legislation and HM Revenue & Customs rules where relevant. To ensure the efficient administration of these plans, the Committee will apply certain operational discretions. These include the following:

- selecting the participants in the plans on an annual basis;
- determining the timing of grants of awards and/or payment;
- determining the quantum of awards and/or payments (within the limits set out in the remuneration policy);
- determining the extent of vesting based on the assessment of performance;
- making the appropriate adjustments required in certain circumstances (e.g. change of control, rights issues, corporate restructuring events and special dividends);
- determining "good leaver" status for incentive plan purposes and applying the appropriate treatment; and
- undertaking the annual review of weighting of performance measures, and setting targets for the annual bonus plan and the PSP from year to year.

If an event occurs which results in the annual bonus plan or PSP performance conditions and/or targets being deemed no longer appropriate by the Committee (e.g. a material acquisition or divestment), the Committee will have the ability to adjust appropriately the measures and/or targets and alter weightings, provided that the revised conditions or targets are not materially less difficult to satisfy (taking account of the relevant circumstances).

Ultimately, the payment of any bonus is entirely at the discretion of the Committee. Equally, the operation of share incentive schemes is at the discretion of the Committee. In conjunction with malus and clawback provisions, the Committee has the flexibility to override formulaic outcomes and recover and/or withhold sums. In choosing to use this discretion, the Committee will consider the specific circumstances at the time. Where such action is considered necessary, this will be clearly stated in the relevant directors' remuneration report.

HOW THE EXECUTIVE DIRECTORS' REMUNERATION POLICY RELATES TO THE WIDER GROUP

In addition to determining the remuneration arrangements for the executive directors, the Committee considers and approves the base salaries for eight other non-US senior executives. The Committee also receives information on general pay levels and policies across the Group. The Committee, therefore, has due regard to salary levels across the Group in applying its remuneration policy.

During the year, the designated non-executive director for employee engagement held a number of remote meetings with employees from across the Group in which the Group's key priorities going forward and the business strategy were discussed. Topics discussed during these meetings also included remuneration with the designated non-executive director sharing with employees how remuneration links to business strategy and how performance is determined. Employees are encouraged to ask questions and share their views during these meetings.

The remuneration policy described above provides an overview of the structure that operates for the most senior executives in the Group. Lower aggregate incentive quanta are applied at below executive level, with levels driven by market comparatives and the impact of the role.

Employees are provided with a competitive package of benefits, which typically includes participation in the Group's defined contribution pension arrangements.

Long-term incentives are provided to the most senior executives and those identified as having the greatest potential to influence performance within the Group. However, in order to encourage wider employee share ownership, the Company also operates a Sharesave Plan in the UK, in which all UK employees are eligible to participate.

EXECUTIVE DIRECTORS' SERVICE AGREEMENTS AND LOSS OF OFFICE PAYMENTS

The current executive directors have rolling service contracts, details of which are summarised in the table below:

Provision	Detailed terms
Contract dates	Michael Ord – 30 April 2018 (effective 1 June 2018) Andrew Lewis – 12 December 2016 (effective 9 January 2017) Sarah Ellard – 2 November 2011 (effective 7 October 2011)
Notice period	Twelve months from both the Company and from the executive
Termination payments	Contracts may be terminated without notice by the payment of a sum equal to the sum of salary due for the unexpired notice period plus the fair value of any contractual benefits (including pension) Payments may be made in instalments and in these circumstances, there is a requirement to mitigate loss

The executive directors' service contracts are available for inspection at the Company's registered office.

POLICY IN RESPECT OF THE CHAIRMAN AND NON-EXECUTIVE DIRECTORS

Element	Purpose and link to strategy	Operation	Maximum	Performance assessment
The Chairman's and non-executive directors' fees	Takes account of recognised practice and set at a level that is sufficient to attract and retain high-calibre non-executives	- The Chairman is paid a single fee for all his responsibilities. The non-executive directors are paid a basic fee. The Chairs of the Remuneration Committee and the Audit Committee, the Senior Independent Director and the non-executive director responsible for employee engagement each receive additional fees to reflect their extra responsibilities - When reviewing fee levels, account is taken of market movements in non-executive director fees, Board Committee responsibilities, ongoing time commitments, the general economic environment and the level of increases awarded to the wider workforce - Fee increases, if applicable, are normally effective from January of each year - Non-executive directors do not participate in any pension, bonus or share incentive plans - Non-executive directors may be compensated for travel, accommodation or hospitality-related expenses in connection with their roles and any tax thereon - In exceptional circumstances, additional fees may be paid where there is a substantial increase in the temporary time commitment required of non-executive directors	- N/A	- N/A

CHAIRMAN'S AND NON-EXECUTIVE DIRECTORS' LETTERS OF APPOINTMENT

Non-executive directors do not receive compensation for loss of office but are appointed for a fixed term of three years, renewable for further three-year terms if both parties agree and subject to annual re-election by shareholders. The Chairman's appointment may be terminated on six months' notice by either party and the other non-executive directors' appointments may be terminated on three months' notice by either party. The non-executive directors' letters of appointment are available for inspection at the Company's registered office.

The following table provides details of the terms of appointment for the Chairman and the current non-executive directors:

Non-executive	Date original term commenced	Date current term commenced	Expected expiry date of current term
Carl-Peter Forster	1 May 2016	1 May 2022	30 April 2025
Laurie Bowen	1 August 2019	1 August 2022	31 July 2025
Andrew Davies	17 May 2016	17 May 2022	16 May 2025
Stephen King	1 December 2018	1 December 2021	30 November 2024
Fiona MacAulay	3 June 2020	3 June 2020	2 June 2023

APPLICATION OF THE REMUNERATION POLICY IN 2023

This part of the report sets out how the approved directors' remuneration policy will be implemented in 2023.

EXECUTIVE DIRECTORS

Element	Implementation
Salary	- The executive directors' salaries were reviewed in November 2022, and the following salary increases were agreed, effective 1 January 2023: > Michael Ord – £555,000 > Andrew Lewis – £399,376 > Sarah Ellard – £279,978 - As detailed in the Chair's introductory statement, the increase to the Group Chief Executive's salary was the second phase of a pre-agreed increase arising from the 2022 directors' remuneration policy review process with no further cost-of-living related adjustment. The other executive directors' increases were agreed at 5%, with the rate of increase within the range of budgeted increases of 4% to 6% that were set by, and then agreed with, each individual operating business for 2023.
Benefits	- No changes are proposed to the benefits provision for 2023.
Pension	- Pension provision has been reduced from 10% of salary for the Group Chief Executive and 20% of salary for the other executive directors to 7.5% of salary with effect from 1 November 2022 to achieve alignment with the typical rate of workforce pension provision.
Bonus	- The maximum bonus opportunity will be 150% of salary for the Group Chief Executive and 125% of salary for the Chief Financial Officer and the Group Legal Director & Company Secretary. - The financial performance measures and weightings of financial performance measures and strategic objectives for the annual bonus plan will be unchanged: > Earnings per share 40% > Operating cash flow 40% > Strategic objectives 20% - Strategic objectives have been set to reflect performance in the following key areas: > Safety, including continuing implementation of the Group HSE Management System Framework Standard and associated assurance processes, and ensuring that the Group's total recordable injury frequency rate and frequency of process safety events remain below the targeted maximum rates > Sustainability, including development of infrastructure options to support the Group's carbon reduction plans and delivery of reductions in the Group's scope 1 and scope 2 emissions > Ongoing implementation of the Operational Framework and demonstration of progress in operational assurance improvement plans > Deployment of common standards for the protection of people, information and technology, with specific emphasis on cyber-security > People management, including talent management, succession planning and leadership development, and strengthening of employee engagement activities > Delivery of diversity, equity and inclusion objectives > Delivery of organic and inorganic growth strategies for Roke and Roke USA > Progress growth opportunities in the biosecurity sector > Develop organic and inorganic growth opportunities in the US space and missiles sectors > Develop growth options in the European and US propellant and specialty materials markets - The Committee does not believe that it would be in shareholders' interests to prospectively disclose the financial targets under the annual bonus plan due to issues of commercial sensitivity. However, detailed retrospective disclosure of both the financial targets and the strategic objectives, and performance against them, will be included in next year's annual report on remuneration The range of financial targets approved for 2023 have been set in the context of current business planning and the current economic outlook, which is different than was the case looking into 2022. Overall, the targets are considered similarly challenging to those set in prior years in the current market context. - No bonus will be payable in respect of the strategic objectives unless the Committee is satisfied that this is justified by the Group's underlying performance, including *inter alia* levels of profitability and cash flow.

APPLICATION OF THE REMUNERATION POLICY IN 2023 continued

EXECUTIVE DIRECTORS continued

Element	Implementation
Performance Share Plan ("PSP")	- Executive directors will be granted PSP awards over 150% of salary in 2023. - Performance conditions for 2023 (tested over a three-year performance period to 31 October 2025) and weightings will be 50% EPS, 30% relative TSR and 20% ESG targets. 25% of each part of the award will vest for threshold or median performance, with full vesting of each part of the award for stretch or upper quartile performance. - The EPS performance condition for the 2023 awards will be measured as follows:

Total compound EPS per share growth over the three-year performance period[1]	% of EPS part that may vest
Less than 5% p.a.	0%
5% p.a.	25%
Between 5% p.a. and 10% p.a.	On a straight-line basis between 25% and 100%
10% p.a. or more	100%

- The TSR performance condition for the 2023 awards will be measured as follows:

Rank of the Company's TSR against the TSR of the FTSE All-Share (excluding investment trusts) over the three-year performance period	% of TSR part that may vest
Below median	0%
Median	25%
Between median and upper quartile	On a straight-line basis between 25% and 100%
Upper quartile or above	100%

- The ESG performance condition for the 2023 awards will be measured as follows:

Reduction in scope 1 and scope 2 emissions (market-based) over the three-year performance period	% of ESG part that may vest
Less than 15%	0%
15%	25%
Between 15% and 25%	On a straight-line basis between 25% and 100%
25% or more	100%

- The choice of EPS, TSR and emissions reduction targets aligns with the Group's long-term strategic objectives of delivering profitable growth and shareholder returns on a sustainable basis. The range of EPS and emissions reduction targets were set with reference to internal plans, market expectations and current economic circumstances. The overall targets are similarly challenging to those set in prior years in the context of current market conditions.

NOTES:

1. The EPS target range is considered stretching when viewed against internal forecasts and a broader reflection of prevailing macro-economic factors.
2. The reduction in scope 1 and scope 2 emissions target is aligned with our strategy of becoming carbon neutral by 2030 and takes into account the expected glidepath to reaching this goal.

APPLICATION OF THE REMUNERATION POLICY IN 2023 continued

FEES FOR THE CHAIRMAN AND NON-EXECUTIVE DIRECTORS

As detailed in the directors' remuneration policy, the Company's approach to setting the non-executive directors' remuneration takes account of recognised practice, and is set at a level that is sufficient to attract and retain high-calibre non-executives. The fees for the non-executive directors are determined by the executive directors and the Chairman, and the Remuneration Committee determines the fees for the Chairman.

Details of the fees that will apply for 2023 are set out below:

	Fee as at 1 January 2023	Percentage increase
Chairman's fee	£216,300	5%
Other non-executive directors' base fee	£59,483	5%
Audit Committee Chair fee	£10,000	—
Remuneration Committee Chair fee	£10,000	—
Senior Independent Director fee	£10,000	—
Non-executive directors' fee for employee engagement	£5,000	—

APPROVAL OF THE DIRECTORS' REMUNERATION REPORT

The directors' remuneration report was approved by the Board on 13 December 2022.

Signed on behalf of the Board

Laurie Bowen
Chair of the Remuneration Committee
13 December 2022

DIRECTORS' REPORT

The directors present their annual report, together with the audited financial statements of the Group and the Company, for the year ended 31 October 2022.

The following sections of the annual report are incorporated into the directors' report by reference:

- strategic report on pages 1 to 75;
- corporate governance report on pages 80 to 89;
- Audit Committee report on pages 90 to 93;
- directors' remuneration report on pages 96 to 119; and
- notes to the Group financial statements as detailed in this section.

BUSINESS REVIEW

The strategic report on pages 1 to 75 provides a review of the Group's business development, performance and position during and at the end of the financial year, its strategy and likely future developments, key performance indicators, and a description of the principal risks and uncertainties facing the business. Further information regarding financial risk management policies and financial instruments is given in note 20 to the Group financial statements.

There have been no significant events since the balance sheet date.

RESULTS AND DIVIDENDS

The profit attributable to the Group's shareholders for the year was £47.4m (2021: £41.5m).

The directors are recommending the payment of a final dividend of 3.8p per ordinary share which, together with the interim dividend of 1.9p per share paid in September 2022, gives a total for the year of 5.7p (2021: 4.8p). The final dividend is subject to approval by shareholders at the Annual General Meeting on 15 March 2023 and has not therefore been included as a liability in these financial statements.

DIRECTORS AND THEIR INTERESTS

The current directors are shown on pages 78 and 79.

In accordance with the Company's Articles of Association, all directors are required to submit themselves for re-election at every Annual General Meeting. All directors will therefore be seeking re-election at the Annual General Meeting on 15 March 2023.

Details of the service contracts entered into between the Company and the executive directors are set out in the directors' remuneration report on page 115. The non-executive directors do not have service contracts with the Company.

The Company maintains directors' and officers' liability insurance in respect of legal action against its directors and officers. The Company has also granted indemnities to its directors to the extent provided by law (which are qualifying third party indemnities within the meaning of section 236 of the Companies Act 2006). Neither the insurance nor the indemnities provide cover in the event of proven fraudulent or dishonest activity.

Other than in relation to their service contracts, none of the directors is or was beneficially interested in any significant contract to which the Group was a party during the year ended 31 October 2022.

Information required in relation to directors' shareholdings is set out in the directors' remuneration report on page 106.

EMPLOYEES AND EMPLOYEE CONSULTATION

Details of the Group's employment policies and employee consultation practices are set out on pages 50 to 56.

POLITICAL DONATIONS

No political donations were made during the year (2021: £nil).

CONTRACTUAL ARRANGEMENTS

The Group contracts with a wide range of customers, comprising governments, armed forces, prime contractors and OEMs across the globe. The US Department of Defense is the largest single customer and procures the Group's products under a significant number of separate contracts placed with individual Group businesses.

The Group's businesses utilise many suppliers across the world and arrangements are in place to ensure that businesses are not totally reliant on single suppliers for key raw materials or components.

RESEARCH AND DEVELOPMENT

The Group's research and development expenditure for the year is detailed in the financial review on page 62.

CHANGE OF CONTROL

Individual Group businesses have contractual arrangements with third parties, entered into in the normal course of business, which may be amended or may terminate on a change of control of the relevant business, or in certain circumstances, following a takeover of the Group.

The most significant agreements entered into by the Group which contain provisions granting the counterparties certain rights in the event of a change of control of the Company are the revolving credit facility agreements entered into with the Group's banks. These agreements provide that, in the event of a change of a control, the Company must repay all outstanding borrowings, together with accrued interest and other sums owing under each agreement.

SHARE CAPITAL AND SHAREHOLDER RIGHTS

GENERAL

The Company's share capital consists of ordinary shares of 1p each and preference shares of £1 each, which are fully paid up and quoted on the main market of the London Stock Exchange. Full details of the movements in the issued share capital of the Company during the financial year are provided in note 24 to the Group financial statements.

Details of the rights attaching to shares are set out in the Articles of Association (the "Articles"). All holders of ordinary shares are entitled to attend, speak and vote at any general meeting of the Company, and to appoint a proxy or proxies to exercise these rights. At a general meeting, every shareholder present in person, by proxy or (in the case of a corporate member) by corporate representative has one vote on a show of hands, and on a poll has one vote for every share held. The Notice of Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in respect of the resolutions to be passed at the Annual General Meeting.

A member or members representing at least 5% of the ordinary share capital of the Company may require the directors to convene a general meeting. A member or members representing at least 5% of the ordinary share capital of the Company or at least 100 members with the right to vote at an Annual General Meeting and each holding, on average, at least £100 of paid-up share capital may request a resolution to be put before an Annual General Meeting.

There are no restrictions on the transfer of ordinary shares in the capital of the Company, other than certain restrictions which may from time to time be imposed by law. In accordance with the Market Abuse Regulation, certain employees are required to seek the approval of the Company to deal in its shares.

The cumulative preference shares, which are also publicly traded on the London Stock Exchange, carry an entitlement to a dividend at the rate of 7p per share per annum, payable in equal instalments on 30 April and 31 October each year. Holders of the preference shares have the right on a winding-up to receive, in priority to any other classes of shares, the sum of £1 per share together with any arrears of dividends. There are no restrictions on the transfer of the cumulative preference shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

The Company's Articles may only be amended by special resolution at a general meeting of shareholders.

ISSUE OF SHARES

Under the provisions of section 551 of the Companies Act 2006 (the "Act"), the Board is prevented from exercising its powers under the Articles to allot shares without an authority contained either in the Articles or in a resolution of the shareholders passed in general meeting. The authority, when given, can last for a maximum period of five years, but the Board proposes that renewal should be sought at each Annual General Meeting. An ordinary resolution, seeking such authority, will be proposed at the forthcoming Annual General Meeting.

Section 561 of the Act requires that an allotment of shares for cash may not be made unless the shares are first offered to existing shareholders on a pre-emptive basis in accordance with the terms of the Act.

In accordance with general practice, to ensure that small issues of shares can be made without the necessity of convening a general meeting, the Board proposes that advantage be taken of the provisions of section 571 of the Act not to apply the Act's pre-emptive requirements. Accordingly, a special resolution will be proposed at the forthcoming Annual General Meeting which, if passed, will have the effect of granting the directors the power to allot not more than 5% of the issued ordinary share capital at the date of the Annual General Meeting free of the requirements of section 561 of the Act. No issue of these shares will be made which would effectively alter the control of the Company without the prior approval of the shareholders in general meeting.

PURCHASE OF OWN SHARES

The Company did not purchase any of its ordinary shares (2021: nil) during the year and no shares were held in treasury at 31 October 2022 (2021: nil).

A special resolution will be proposed at the forthcoming Annual General Meeting to renew the Company's authority to purchase its own shares in the market up to a limit of 10% of its issued ordinary share capital. The maximum and minimum prices will be stated in the resolution at the date of the Annual General Meeting. The directors believe that it is advantageous for the Company to have this flexibility to make market purchases of its own shares. The directors of the Company may consider holding repurchased shares pursuant to the authority conferred by this resolution as treasury shares. This will give the Company the ability to reissue treasury shares quickly and cost effectively, and will provide the Company with additional flexibility in the management of its capital base. Any issues of treasury shares for the purposes of the Company's employee share schemes will be made within the 10% anti-dilution limit set by The Investment Association. The directors will only exercise this authority if they are satisfied that a purchase would result in an increase in expected earnings per share and would be in the interests of shareholders generally.

SUBSTANTIAL SHAREHOLDINGS

At 12 December 2022, the following substantial holdings in the ordinary share capital of the Company had been notified to the Company in accordance with Chapter 5 of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority. It should be noted that these holdings may have changed since the Company was notified; however, notification of any change is not required until the next notifiable threshold is crossed.

NAME	% INTEREST
Invesco Limited	8.1
BlackRock. Inc.	7.9
Old Mutual Asset Managers	5.1
Ameriprise Financial, Inc. and its group	5.0
J O Hambro Capital Management Limited	5.0
AXA Investment Managers S.A.	5.0
Aviva PLC and its subsidiaries	5.0
FIL Limited	Below 5.0
Jupiter Fund Management PLC	Below 5.0
Schroders Plc	Below 5.0
Majedie Asset Management Limited	4.9
J P Morgan Chase & Co	4.9
Royal London Asset Management Limited	4.9
Neptune Investment Management Limited	4.8
Prudential Plc	4.8
Investec Asset Management Limited	4.8
Standard Life Investments Limited	4.8
Norges Bank	4.0
BT Pension Scheme Trustees Limited as Trustee of the BT Pension Scheme	3.8

EMPLOYEE SHARE SCHEMES AND PLANS

APPROACH TO SHARE OWNERSHIP

The Group actively encourages its employees to share in the future success of the Group, and therefore operates share-based arrangements to provide incentives and rewards to employees.

The Group operated four share-based incentive plans during the year, as set out below. Further details of awards and vesting are provided in note 27 to the Group financial statements.

THE CHEMRING GROUP 2008 AND 2018 UK SHARESAVE PLANS (COLLECTIVELY THE "UK SHARESAVE PLAN")

The UK Sharesave Plan is open to all eligible UK employees. Employees may choose between three and five-year savings periods, at the end of which the employee can choose to exercise the option or seek the return of their savings. A grant of options was made on 1 September 2022.

THE CHEMRING GROUP PERFORMANCE SHARE PLAN 2016 (THE "2016 PSP")

The 2016 PSP is the primary long-term incentive plan for executive directors and senior employees. Discretionary awards are granted under the PSP over a fixed number of shares by reference to salary, with awards ordinarily vesting, subject to meeting performance criteria, on the third anniversary of the grant date. Awards were granted under the plan on 15 December 2021.

THE CHEMRING GROUP RESTRICTED SHARE PLAN (THE "RSP")

The RSP provides for the discretionary grant of deferred share awards to selected key employees. Executive directors are not eligible to participate. Awards typically vest on the second or third anniversary of the grant date, subject to meeting continuous service criteria. Awards under the RSP may only be satisfied with market-purchased shares.

GOING CONCERN

Details of the conclusions arrived at by the directors in preparing the financial statements on a going concern basis are set out in the statement on going concern on page 74.

ADDITIONAL INFORMATION, AS REQUIRED BY LISTING RULES REQUIREMENT 9.8.4

The annual report is required to contain certain information under Listing Rules Requirement 9.8.4. Where this information has not been cross-referenced within the Group financial statements, it can be found in the following sections:

- capitalised interest (see note 6);
- long-term incentive schemes (see directors' remuneration report);
- allocation of equity securities for cash (see note 27);
- contracts of significance (see directors' report);
- election of independent directors (see corporate governance report);
- contractual arrangements (see directors' report);
- details of independent directors (see corporate governance report); and
- substantial shareholders (see directors' report).

No profit forecasts are issued by the Group and no directors have waived any current or future emoluments.

Other than in relation to ordinary shares held in treasury, no shareholders have waived or agreed to waive dividends.

None of the shareholders is considered to be a Controlling Shareholder (as defined in Listing Rule 6.1.2.A) and the Group complies with the independence provisions of the Listing Rules.

PROVISION OF INFORMATION TO THE AUDITOR

Each director at the date of this report confirms that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

AUDITOR

Resolutions will be proposed at the forthcoming Annual General Meeting to reappoint KPMG and to authorise the directors to determine the external auditor's remuneration.

ANNUAL GENERAL MEETING

The resolutions to be proposed at the Annual General Meeting to be held on 15 March 2023, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

The directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with UK-adopted international accounting standards and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law, including FRS 101 *Reduced Disclosure Framework.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the Group's profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In accordance with Disclosure Guidance and Transparency Rule 4.1.14R, the financial statements will form part of the annual financial report prepared using the single electronic reporting format under the TD ESEF Regulation. The auditor's report on these financial statements provides no assurance over the ESEF format.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL FINANCIAL REPORT

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report and directors' report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

The directors' report and responsibility statement was approved by the Board of directors on 13 December 2022 and is signed on its behalf by:

Michael Ord
Group Chief Executive
13 December 2022

Sarah Ellard
Group Legal Director
13 December 2022

CONSOLIDATED INCOME STATEMENT

For the year ended 31 October 2022

	Note	2022 Underlying performance £m	2022 Non-underlying items[1] £m	2022 Total £m	2021 Underlying performance £m	2021 Non-underlying items[1] £m	2021 Total £m
Continuing operations							
Revenue	1,2	**442.8**	**—**	**442.8**	393.3	—	393.3
Operating profit	2,4	**64.0**	**(10.7)**	**53.3**	57.5	(7.1)	50.4
Finance expense	6	**(1.5)**	**—**	**(1.5)**	(1.6)	—	(1.6)
Profit before tax		**62.5**	**(10.7)**	**51.8**	55.9	(7.1)	48.8
Taxation	7	**(5.7)**	**1.3**	**(4.4)**	(8.3)	1.0	(7.3)
Profit after tax		**56.8**	**(9.4)**	**47.4**	47.6	(6.1)	41.5
Earnings per ordinary share							
Basic	9	**20.2p**		**16.9p**	16.9p		14.7p
Diluted	9	**19.7p**		**16.4p**	16.5p		14.4p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 October 2022

	Note	2022 £m	2021 £m
Profit after tax attributable to equity holders of the parent as reported		**47.4**	41.5
Items that will not be reclassified subsequently to profit and loss			
Remeasurement of the defined benefit pension schemes	29	**(2.3)**	6.2
Movement on deferred tax relating to pension schemes	23	**0.8**	(2.2)
		(1.5)	4.0
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		**35.0**	(8.3)
Tax on exchange differences on translation of foreign operations		**(0.4)**	0.1
		34.6	(8.2)
Total comprehensive income attributable to equity holders of the parent		**80.5**	37.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 October 2022

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

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

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

CONSOLIDATED BALANCE SHEET

As at 31 October 2022

	Note	2022 £m	2022 £m	2021 £m	2021 £m
Non-current assets					
Goodwill	10	**118.1**		108.7	
Development costs	11	**34.6**		30.0	
Other intangible assets	11	**11.4**		14.1	
Property, plant and equipment	12	**231.3**		198.7	
Retirement benefit surplus	29	**11.2**		13.7	
Deferred tax	23	**32.3**		18.2	
			438.9		383.4
Current assets					
Inventories	14	**99.6**		80.7	
Trade and other receivables	15	**61.1**		60.6	
Cash and cash equivalents	16	**19.8**		5.8	
Derivative financial instruments	21	**0.7**		1.0	
			181.2		148.1
Total assets			**620.1**		531.5
Current liabilities					
Borrowings	17	**—**		(0.4)	
Lease liabilities	18	**(1.8)**		(1.4)	
Trade and other payables	19	**(98.2)**		(85.7)	
Provisions	22	**(1.6)**		(2.6)	
Current tax		**(7.9)**		(12.0)	
Derivative financial instruments	21	**(4.2)**		(0.4)	
			(113.7)		(102.5)
Non-current liabilities					
Borrowings	17,32	**(20.9)**		(28.1)	
Lease liabilities	18	**(4.2)**		(2.4)	
Provisions	22	**(16.8)**		(14.9)	
Deferred tax	23	**(45.2)**		(30.7)	
Derivative financial instruments	21	**(1.1)**		—	
Preference shares	17,24	**(0.1)**		(0.1)	
			(88.3)		(76.2)
Total liabilities			**(202.0)**		(178.7)
Net assets			**418.1**		352.8
Equity					
Share capital	24		**2.8**		2.8
Share premium account	25		**307.7**		307.1
Special capital reserve	25		**12.9**		12.9
Revaluation reserve	25		**—**		0.9
Translation reserve	25		**7.5**		(27.1)
Retained earnings			**87.2**		56.2
Total equity			**418.1**		352.8

These financial statements of Chemring Group PLC (registered number 86662) were approved and authorised for issue by the Board of directors on 13 December 2022.

Signed on behalf of the Board

Michael Ord
Director

Andrew Lewis
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 October 2022

	Note	2022 £m	2021 £m
Cash flows from operating activities			
Cash generated from continuing underlying operations	30	**90.1**	80.0
Cash impact of continuing non-underlying items		**(1.1)**	(1.3)
Cash impact of discontinued non-underlying items		**—**	(0.4)
Cash flows from operating activities		**89.0**	78.3
Tax paid		**(8.5)**	(2.6)
Net cash inflow from operating activities		**80.5**	75.7
Cash flows from investing activities			
Purchases of intangible assets		**(3.0)**	(2.2)
Purchases of property, plant and equipment		**(31.5)**	(28.0)
Acquisition of subsidiary net of cash acquired	28	**—**	(5.1)
Proceeds on disposal of subsidiary		**—**	0.4
Short-term funding to defined benefit pension scheme	34	**(2.0)**	—
Proceeds on disposal of property, plant and equipment		**6.0**	—
Net cash outflow from investing activities		**(30.5)**	(34.9)
Cash flows from financing activities			
Dividends paid	8	**(14.4)**	(11.9)
Purchase of own shares		**(7.0)**	(7.1)
Net proceeds for transactions in own shares		**0.1**	0.4
Finance expense paid		**(1.3)**	(2.6)
Capitalised facility fees paid		**—**	(1.1)
Drawdown of borrowings		**30.0**	29.2
Repayments of borrowings		**(41.0)**	(55.7)
Payment of lease liabilities		**(2.2)**	(1.6)
Net cash outflow from financing activities		**(35.8)**	(50.4)
Increase/(decrease) in cash and cash equivalents	31	**14.2**	(9.6)
Cash and cash equivalents at beginning of year (including bank overdraft)		**5.4**	14.7
Effect of foreign exchange rate changes		**0.2**	0.3
Cash and cash equivalents at end of year (including bank overdraft)	16,32	**19.8**	5.4

1. REVENUE

All of the Group's revenue is derived from the sale of goods and the provision of services. The following table provides an analysis of the Group's revenue by destination:

	Sensors & Information £m	Countermeasures & Energetics £m	2022 £m
UK	**100.3**	**51.5**	**151.8**
US	**54.9**	**166.8**	**221.7**
Europe	**5.7**	**48.8**	**54.5**
Asia Pacific	**1.2**	**10.4**	**11.6**
Rest of the world	**0.2**	**3.0**	**3.2**
	162.3	**280.5**	**442.8**

	Sensors & Information £m	Countermeasures & Energetics £m	2021 £m
UK	75.7	44.4	120.1
US	62.9	137.3	200.2
Europe	5.1	48.6	53.7
Asia Pacific	2.1	13.7	15.8
Rest of the world	0.8	2.7	3.5
	146.6	246.7	393.3

The directors consider that the only countries that are significant in accordance with IFRS 8 *Operating Segments* are the US and the UK.

The following table discloses the split of the Group's revenue between goods and services:

	Sensors & Information £m	Countermeasures & Energetics £m	2022 £m
Goods	**53.1**	**274.3**	**327.4**
Services	**109.2**	**6.2**	**115.4**
	162.3	**280.5**	**442.8**

	Sensors & Information £m	Countermeasures & Energetics £m	2021 £m
Goods	56.4	242.8	299.2
Services	90.2	3.9	94.1
	146.6	246.7	393.3

All revenues recognised arose from contracts with customers.

As at 31 October 2022 £651m (2021: £501m) of revenue was not yet recognised in respect of obligations that were unfulfilled or only partially fulfilled as at the year end. £403m (2021: £358m) of this revenue is expected to be recognised in the next financial year and £248m (2021: £143m) in future periods.

2. BUSINESS SEGMENTS

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group Chief Executive and the Board to allocate resources to the segments and to assess their performance. For management purposes, the Group's operating and reporting structure clusters similar businesses together, based on the products and services they offer. These segments are the basis on which the Group reports its segmental information.

The principal activities of each segment are as follows:

Sensors & Information	Provision of consulting and technology services to solve security-critical issues. Development and manufacture of electronic countermeasures, chemical and biological threat detection equipment and explosive hazard detection ("EHD") equipment.
Countermeasures & Energetics	Development and manufacture of expendable countermeasures for air and sea platforms, cartridge/propellant actuated devices, pyrotechnic devices for satellite launch and deployment, missile components, propellants, separation sub-systems, actuators and energetic materials.

2. BUSINESS SEGMENTS continued

A segmental analysis of revenue and operating profit is set out below:

Year ended 31 October 2022	Sensors & Information £m	Countermeasures & Energetics £m	Unallocated* £m	Total £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 (note 3)	**(2.5)**	**(2.1)**	**—**	**(4.6)**
Non-underlying items (note 3)	**(1.2)**	**—**	**(4.9)**	**(6.1)**
Impact of non-underlying items on profit before tax (note 3)	**(3.7)**	**(2.1)**	**(4.9)**	**(10.7)**
Segmental operating profit	**26.3**	**46.8**	**(19.8)**	**53.3**
Finance expense			**(1.5)**	**(1.5)**
Profit before tax			**(21.3)**	**51.8**
Tax			**(4.4)**	**(4.4)**
Profit for the year			**(25.7)**	**47.4**

Year ended 31 October 2021	Sensors & Information £m	Countermeasures & Energetics £m	Unallocated* £m	Total £m
Revenue	146.6	246.7	—	393.3
Segment result before depreciation, amortisation and non-underlying items	34.4	56.1	(14.1)	76.4
Depreciation	(2.7)	(15.5)	—	(18.2)
Amortisation	(0.1)	(0.6)	—	(0.7)
Segmental underlying operating profit	31.6	40.0	(14.1)	57.5
Amortisation of acquired intangibles (note 3)	(4.1)	(2.1)	—	(6.2)
Non-underlying items (note 3)	(1.6)	—	0.7	(0.9)
Impact of non-underlying items on profit before tax (note 3)	(5.7)	(2.1)	0.7	(7.1)
Segmental operating profit	25.9	37.9	(13.4)	50.4
Finance expense			(1.6)	(1.6)
Profit before tax			(15.0)	48.8
Tax			(7.3)	(7.3)
Profit for the year			(22.3)	41.5

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

Assets and liabilities by segment are not reported to the Group Chief Executive on a monthly basis; therefore they are not used as a key decision making tool and are not disclosed here. A disclosure of non-current assets by location, excluding retirement benefit surplus and deferred tax, is shown below:

Non-current assets by location	2022 £m	2021 £m
UK	**149.4**	143.4
US	**211.5**	178.1
Norway	**18.0**	12.4
Australia	**16.5**	17.6
	395.4	351.5

INFORMATION ON MAJOR CUSTOMERS

Revenues of £166.2m (2021: £166.9m) arose from sales to the Group's largest customer, the US DoD. The largest customer had sales reported in both of the Group's business segments. This was the only individual customer where direct sales accounted for more than 10% of Group revenue for the year.

3. ALTERNATIVE PERFORMANCE MEASURES

In accordance with our accounting policy we have presented the following reconciliation of Alternative Performance Measures used throughout this report to their IFRS equivalent measures as follows:

Non-underlying items and non-underlying measures	2022 £m	2021 £m
(Loss)/gain on the movement in the fair value of derivative financial instruments (note 21)	**(4.1)**	0.7
Acquisition expenses (note 28)	**(2.0)**	(1.6)
Impact of non-underlying items on EBITDA	**(6.1)**	(0.9)
Amortisation of acquired intangibles arising from business combinations (note 11)	**(4.6)**	(6.2)
Impact of non-underlying items on profit before tax	**(10.7)**	(7.1)
Tax impact of non-underlying items	**1.3**	1.0
Impact of non-underlying items on profit after tax	**(9.4)**	(6.1)
Underlying profit after tax	**56.8**	47.6
Statutory profit after tax	**47.4**	41.5

The Alternative Performance Measures ("APMs") used may not be comparable across companies. The impact of non-underlying items on statutory basic and diluted EPS, as well as a reconciliation to the IFRS equivalent, is presented in note 9. The impact of non-underlying items on cash generated from operating activities, as well as a reconciliation to the IFRS equivalent, is presented in note 30. The cash impact of non-underlying items includes the impact of exceptional items from prior years where the income statement and cash flow timings differ.

AMORTISATION OF ACQUIRED INTANGIBLES

Included in non-underlying items is the amortisation charge arising from business combinations of £4.6m (2021: £6.2m). Amortisation of acquired intangibles arising from business combinations is associated with acquisition accounting under IFRS 3 *Business Combinations*. IFRS requires intangibles to be recognised on acquisition that would not have been capitalised had the business grown organically under Chemring's ownership. As such, these costs are not reflective of the underlying costs of the Group and therefore, in order to provide an explanation of results that is not distorted by the history of business units being acquired rather than organically developed, have been excluded from the underlying measures.

DERIVATIVE FINANCIAL INSTRUMENTS

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

ACQUISITION EXPENSES

Included in non-underlying items is £2.0m (2021: £1.6m) of acquisition expenses. This includes £1.0m (2021: £0.4m) relating to deferred consideration contingent on continued employment of the former owners of Cubica, which has been accounted for as equity-settled share-based payments under IFRS 2 *Share-based Payments*. We have classified this cost as a non-underlying item as it is a non-recurring cost relating to an acquisition. See note 28 for further details. The remaining expense of £1.0m (2021: £1.2m) primarily includes professional fees incurred in relation to the Group's mergers and acquisitions activity during the year. The acquisition expenses are not reflective of the underlying costs of the Group and therefore, in order to provide an explanation of results that is not distorted by the costs of acquiring a business rather than organically developed, these costs have been excluded from the underlying measures.

TAX

The tax impact of non-underlying items comprises a £1.3m tax credit (2021: £1.0m credit) on the above non-underlying items.

NET DEBT

A reconciliation and analysis of net debt is presented in notes 31 and 32.

EBITDA

In our financial review we present measures of EBITDA, which is calculated as follows:

	2022 £m	2021 £m
Operating profit	**53.3**	50.4
Amortisation arising from business combinations (note 11)	**4.6**	6.2
Amortisation of development costs (note 11)	**0.1**	0.6
Amortisation of patents and licences (note 11)	**0.1**	0.1
Depreciation of property, plant and equipment (note 12)	**18.1**	18.2
EBITDA	**76.2**	75.5
Non-underlying items	**6.1**	0.9
Underlying EBITDA	**82.3**	76.4

3. ALTERNATIVE PERFORMANCE MEASURES continued

CONSTANT CURRENCY REVENUE AND OPERATING PROFIT

In our financial review we present a measure of constant currency revenue and operating profit. This is calculated by translating our results for the year ended 31 October 2022 at the average exchange rates for the comparative year ended 31 October 2021.

4. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

		2022 £m	2021 £m
Research and development costs	– internally-funded	**7.5**	8.5
Amortisation	– arising from business combinations	**4.6**	6.2
	– development costs	**0.1**	0.6
	– patents and licences	**0.1**	0.1
Depreciation of property, plant and equipment	– owned assets	**16.5**	16.8
	– leased assets	**1.6**	1.4
Impairment of development costs		**2.2**	—
(Profit)/loss on disposal of non-current assets		**(1.9)**	0.1
Government grant amortisation		**—**	(0.5)
Foreign exchange losses/(gains)		**2.0**	(0.8)
Staff costs (note 5)		**169.7**	146.0
Cost of inventories recognised as an expense		**144.3**	128.0

The remaining items within operating profit predominantly relate to general and administrative expenses and production overheads, and includes £4.8m of other income.

A detailed analysis of the auditor's remuneration on a worldwide basis is set out below:

Auditor's remuneration	2022 £m	2021 £m
Fees payable to the Company's auditor and its associates for:		
– the audit of the Company's annual accounts	**0.4**	0.3
– the audit of the Company's subsidiaries, pursuant to legislation	**0.7**	0.7
	1.1	1.0
Other services		
Audit-related assurance services	**0.1**	0.1
	1.2	1.1

Included in the fees for the audit of the Company's annual accounts is £0.1m (2021: £0.1m) in respect of the parent company. A description of the work of the Audit Committee is set out in the Audit Committee report on pages 90 to 93, and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor. No services were provided by the auditor pursuant to contingent fee arrangements.

5. STAFF COSTS

The average monthly number of employees, including executive directors, was:

	2022 Number	2021 Number
Direct	**1,435**	1,381
Indirect	**899**	905
	2,334	2,286

The costs incurred in respect of employees, including share-based payments, were:

	2022 £m	2021 £m
Wages and salaries	**141.8**	121.4
Social security costs	**14.2**	12.9
Other pension costs	**7.3**	6.0
Share-based payment charge	**6.4**	5.7
Staff costs	**169.7**	146.0

The share-based payment charge of £6.4m (2021: £5.7m) excludes £1.0m (2021: £0.4m) of deferred consideration in relation to acquisitions accounted for as equity-settled share-based payments. These amounts are included in non-underlying costs, see notes 3 and 27 for details.

6. FINANCE EXPENSE

	2022 £m	2021 £m
Bank overdraft and loan interest	**1.6**	1.3
Amortisation of debt finance costs	**0.3**	0.6
Interest cost on retirement benefit obligations (note 29)	**0.1**	0.1
Lease liability interest	**0.1**	0.1
	2.1	2.1
Amount capitalised	**(0.6)**	(0.5)
Finance expense	**1.5**	1.6

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's general borrowings during the year, in this case 1.3% (2021: 1.3%). During the year £0.6m (2021: £0.5m) of interest was capitalised in relation to the Tennessee modernisation and automation programme.

7. TAXATION

	2022 £m	2021 £m
Current tax charge – current year	**5.0**	7.2
Current tax credit – prior year	**(1.7)**	(1.9)
Deferred tax charge – current year (note 23)	**0.7**	1.2
Deferred tax charge – prior year (note 23)	**0.4**	0.8
Tax charge	**4.4**	7.3

Income tax in the UK is calculated at 19.0% (2021: 19.0%) of the taxable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in those jurisdictions.

The tax charge can be reconciled to the income statement as follows:

	2022 £m	2021 £m
Profit before tax	**51.8**	48.8
Tax at the UK corporation tax rate of 19.0% (2021: 19.0%)	**9.8**	9.3
Expenses not deductible for tax purposes	**0.1**	—
Changes in tax rates	**—**	1.7
Tax losses/future interest deductions not previously recognised	**(4.6)**	(4.4)
Release of tax risk provision	**(1.7)**	—
Prior period adjustments	**(1.3)**	(1.1)
Overseas profits taxed at rates different to the UK standard rate	**2.1**	1.8
Tax charge	**4.4**	7.3

In addition to the tax charge in the income statement, a tax credit of £0.4m (2021: £2.1m charge) has been recognised in other comprehensive income in the year.

The effective rate of tax on the profit before tax of the Group is 8.5% (2021: 15.0%), and the effective rate of tax on the underlying profit before tax of the Group is 9.1% (2021: 14.8%). The effective rate of tax on the underlying profit before tax is lower than the 2021 effective tax rate due to the recognition of a deferred tax asset in respect of future US interest deductions, which is included in tax losses not previously recognised above.

Included within the tax charge is a current year non-underlying deferred tax credit of £1.3m (2021: £1.0m), predominantly relating to tax on amortisation of acquired intangibles.

The UK Finance Bill 2021 was published on 11 March 2021 and substantively enacted on 24 May 2021. The bill provides for an increase in the rate of corporation tax from 19% to 25% with effect from 1 April 2023. UK deferred tax balances were recalculated in accordance with these rate changes during the year ended 31 October 2021.

FACTORS AFFECTING THE TAX CHARGE IN FUTURE YEARS

The Group's future tax charge and effective tax rate could be affected by several factors including: tax reform in countries around the world, including any arising from the implementation of the OECD's BEPS actions and European Commission initiatives such as the proposed tax and financial reporting directive or as a consequence of state aid investigations, future corporate acquisitions and disposals and any restructuring of our business.

8. DIVIDENDS

	2022 £m	2021 £m
Dividends paid on ordinary shares of 1p each		
Final dividend of 3.2p per share for the year ended 31 October 2021 (2.6p per share for the year ended 31 October 2020)	**9.1**	7.4
Interim dividend of 1.9p per share for the year ended 31 October 2022 (1.6p per share for the year ended 31 October 2021)	**5.3**	4.5
Total dividends	**14.4**	11.9

Subject to approval at the Annual General Meeting, the final dividend of 3.8p per ordinary share will be paid on 14 April 2023 to all shareholders registered at the close of business on 24 March 2023. The estimated cash value of this dividend is £10.7m. The total dividend for the year will therefore be 5.7p (2021: 4.8p) per ordinary share. As the final dividend is subject to approval by the shareholders at the Annual General Meeting, it has not been included as a liability in the financial statements for the year ended 31 October 2022.

The cumulative preference shares carry an entitlement to a dividend at the rate of 7p per share per annum which was paid in equal instalments on 30 April 2022 and 31 October 2022.

9. EARNINGS PER ORDINARY SHARE

Earnings per share is based on the average number of shares in issue, excluding own shares held, of 280,506,245 (2021: 281,555,716).

Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 288,218,004 (2021: 287,985,451).

The number of shares used in the calculations is as follows:

	2022 Ordinary shares Number millions	2021 Ordinary shares Number millions
Weighted average number of shares used to calculate basic earnings per share	**280.5**	281.6
Additional shares issuable other than at fair value in respect of options outstanding	**7.7**	6.4
Weighted average number of shares used to calculate diluted earnings per share	**288.2**	288.0

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

	2022			2021		
	£m	Basic EPS (Pence)	Diluted EPS (Pence)	£m	Basic EPS (Pence)	Diluted EPS (Pence)
Underlying profit after tax	**56.8**	**20.2**	**19.7**	47.6	16.9	16.5
Non-underlying items (note 3)	**(9.4)**			(6.1)		
Total profit after tax	**47.4**	**16.9**	**16.4**	41.5	14.7	14.4

10. GOODWILL

	£m
Cost	
At 1 November 2020	187.8
Acquisitions through business combinations (note 28)	3.1
Foreign exchange adjustments	(6.4)
At 31 October 2021	184.5
Foreign exchange adjustments	20.4
At 31 October 2022	**204.9**
Accumulated impairment losses	
At 1 November 2020	(79.3)
Foreign exchange adjustments	3.5
At 31 October 2021	(75.8)
Foreign exchange adjustments	(11.0)
At 31 October 2022	**(86.8)**
Carrying amount	
At 31 October 2022	**118.1**
At 31 October 2021	108.7

10. GOODWILL continued

Goodwill acquired in a business combination is allocated at acquisition to the cash-generating units ("CGUs") that are expected to benefit from that business combination, being the individual operating companies within the operating segment descriptions on page 128.

The Group tests goodwill at least annually for impairment. Tests are conducted more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions for the value-in-use calculations have been individually estimated for each CGU and include the discount rates and expected changes to cash flows during the period for which management has detailed plans, which are underpinned by the winning and execution of key contracts. Based on our assessment, there is no reasonable possible change in a key assumption which would result in the impairment of goodwill.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to each of the CGUs. Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital of 7.2% (2021: 7.1%) which have been adjusted for a premium specific to each of the CGUs to account for differences in currency risk, country risk and other factors affecting specific CGUs, have been used to discount projected cash flows. These premiums range from 1% to 2% (2021: 1% to 3%).

Expected changes to cash flows during the period for which management has detailed plans relate to revenue forecasts, expected contract outcomes and forecast operating margins in each of the operating companies based on our Board-approved five-year plan which considered past experience and our understanding of customer budgets and priorities. The relative value ascribed to each varies between CGUs as the budgets are built up from the underlying operating companies within each CGU.

At the end of five years, the calculations assume the performance of the CGUs will grow at a nominal annual rate of 2.25% (2021: 1.75%) in perpetuity. Growth rates are based on management's view of industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes.

The weighted average cost of capital is derived using beta values of a comparator group of defence companies adjusted for funding structures as appropriate.

The pre-tax discount rates used for value-in-use calculations and the carrying value of goodwill by CGUs are:

	2022 %	2021 %	2022 £m	2021 £m
Roke Manor Research Limited	**11.2**	11.7	**31.5**	31.5
Chemring Energetics UK Limited	**10.2**	9.7	**14.6**	14.6
Chemring Sensors & Electronic Systems, Inc.	**10.5**	10.6	**40.8**	34.3
Chemring Energetic Devices, Inc.	**10.5**	10.6	**18.0**	15.2
Other			**13.2**	13.1
			118.1	108.7

The goodwill arising from the acquisition of the Cubica Group of £3.1m during the year ended 31 October 2021 was allocated to the Roke Manor Research Limited CGU as it will form part of this operating company going forward (see note 29 for further details).

The pre-tax discount rates used for other CGUs ranged from 10.2% to 12.3% (2021: 8.6% to 11.3%).

Following a detailed review, no impairment losses were recognised in the years ended 31 October 2022 and 31 October 2021 for continuing operations.

Stress testing was performed on the forecasts to consider the impact of reasonably possible worst case scenarios over the forecast period, including a 1% increase in discount rate, a 1% reduction in long-term growth rate, a 10% fall in the forecast cash flows or a $0.10 weakening in the sterling to US dollar exchange rate. Even under any of these circumstances, no CGUs would require an impairment against goodwill.

There are no reasonably possible changes in assumptions that would require an impairment against goodwill.

STRATEGIC REPORT GOVERNANCE FINANCIAL STATEMENTS

11. DEVELOPMENT COSTS AND OTHER INTANGIBLE ASSETS

	Development costs £m	Acquired technology £m	Acquired customer relationships £m	Patents and licences £m	Total £m
Cost					
At 1 November 2020	**55.9**	93.8	48.6	0.6	**143.0**
Acquisitions through business combinations (note 28)	**—**	2.5	2.1	—	**4.6**
Additions	**2.1**	—	—	0.1	**0.1**
Disposals	**(0.5)**	—	—	(0.1)	**(0.1)**
Foreign exchange adjustments	**(1.9)**	(4.8)	(1.9)	(0.1)	**(6.8)**
At 31 October 2021	**55.6**	91.5	48.8	0.5	**140.8**
Additions	**2.5**	0.4	—	—	**0.4**
Disposals	**(0.4)**	—	—	(0.3)	**(0.3)**
Foreign exchange adjustments	**6.2**	15.2	6.2	0.3	**21.7**
At 31 October 2022	**63.9**	**107.1**	**55.0**	**0.5**	**162.6**
Amortisation					
At 1 November 2020	**(26.1)**	(86.8)	(39.3)	(0.3)	**(126.4)**
Charge	**(0.6)**	(3.8)	(2.4)	(0.1)	**(6.3)**
Disposals	**0.5**	—	—	0.1	**0.1**
Foreign exchange adjustments	**0.6**	4.4	1.4	0.1	**5.9**
At 31 October 2021	**(25.6)**	(86.2)	(40.3)	(0.2)	**(126.7)**
Charge	**(0.1)**	(2.0)	(2.6)	(0.1)	**(4.7)**
Impairment	**(2.2)**	—	—	—	**—**
Disposals	**0.3**	—	—	0.3	**0.3**
Foreign exchange adjustments	**(1.7)**	(14.8)	(5.1)	(0.2)	**(20.1)**
At 31 October 2022	**(29.3)**	**(103.0)**	**(48.0)**	**(0.2)**	**(151.2)**
Carrying amount					
At 31 October 2022	**34.6**	**4.1**	**7.0**	**0.3**	**11.4**
At 31 October 2021	**30.0**	5.3	8.5	0.3	**14.1**

Included within the development costs of £34.6m, individually material balances relate to Joint Biological Tactical Detection System of £9.7m (2021: £8.1m), Next Generation Chemical Detector of £16.5m (2021: £13.0m) and Perceive of £5.6m (2021: £4.7m). Development costs are amortised over their useful economic lives, estimated to be between three and ten years, with the remaining amortisation periods for these assets ranging up to ten years.

Acquired intangibles are recognised at fair value on acquisition and are amortised over their estimated useful lives. Fair values for acquired intangibles are assessed by reference to future estimated cash flows, discounted at an appropriate rate to present value, or by reference to the amount that would have been paid in an arm's length transaction between two knowledgeable and willing parties. Other intangible assets are recognised at cost and are amortised over their estimated useful economic lives, which are set out in the accounting policies section.

Acquired technology of £4.1m includes individually material balances relating to Chemring Sensors & Electronic Systems of £1.0m (2021: £1.2m), Chemring Energetic Devices of £0.9m (2021: £1.2m) and Roke (including the Cubica Group) of £2.1m (2021: £2.9m). The remaining amortisation periods for these assets are one year, two years and nine years respectively.

Acquired customer relationships of £7.0m include individually material balances relating to Chemring Energetic Devices of £4.6m (2021: £5.3m), Chemring Sensors & Electronic Systems of £0.6m (2021: £1.2m) and Roke (including the Cubica Group) of £1.8m (2021: £2.0m). The remaining amortisation periods for these assets are four years, one year and nine years respectively.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Plant and equipment £m	Right-of-use land and buildings £m	Right-of-use plant and equipment £m	Total £m
Cost or valuation					
At 31 October 2020	126.6	142.4	5.7	0.6	275.3
Reclassification	0.6	(0.6)	—	—	—
Additions	7.4	19.2	0.3	—	26.9
Disposals	(0.3)	(10.1)	(0.2)	—	(10.6)
Foreign exchange adjustments	(3.1)	(3.1)	(0.3)	0.1	(6.4)
At 31 October 2021	131.2	147.8	5.5	0.7	285.2
Reclassification	0.2	(0.3)	—	—	(0.1)
Additions	9.2	25.6	3.7	—	38.5
Disposals	(5.7)	(3.7)	(0.2)	—	(9.6)
Foreign exchange adjustments	10.4	13.4	1.1	—	24.9
At 31 October 2022	**145.3**	**182.8**	**10.1**	**0.7**	**338.9**
Depreciation					
At 31 October 2020	(19.3)	(60.5)	(1.4)	(0.1)	(81.3)
Charge	(3.4)	(13.4)	(1.3)	(0.1)	(18.2)
Disposals	0.3	10.0	0.2	—	10.5
Foreign exchange adjustments	0.6	1.8	0.1	—	2.5
At 31 October 2021	(21.8)	(62.1)	(2.4)	(0.2)	(86.5)
Reclassification	0.3	(0.2)	—	—	0.1
Charge	(3.5)	(13.0)	(1.4)	(0.2)	(18.1)
Disposals	2.5	3.1	—	—	5.6
Foreign exchange adjustments	(2.4)	(5.7)	(0.6)	—	(8.7)
At 31 October 2022	**(24.9)**	**(77.9)**	**(4.4)**	**(0.4)**	**(107.6)**
Carrying amount					
At 31 October 2022	**120.4**	**104.9**	**5.7**	**0.3**	**231.3**
At 31 October 2021	109.4	85.7	3.1	0.5	198.7

During the year, £0.6m (2021: £0.5m) of interest was capitalised, as set out in note 6. £0.8m (2021: £1.1m) of capitalised interest was charged as depreciation and £nil (2021: £nil) was disposed of. This results in a net book value for capitalised interest of £8.8m (2021: £9.0m).

Included within land and buildings and plant and equipment are assets under construction of £13.6m and £11.5m respectively (2021: £20.8m and £24.2m). These assets are not depreciated.

Land and buildings were revalued at 30 September 1997 by Chestertons Chartered Surveyors, independent valuers not connected with the Group, on the basis of depreciated replacement cost for two pyrotechnic sites and on open market for the remainder, which represent Level 2 measurements in the fair value hierarchy.

	2022 £m	2021 £m
30 September 1997 depreciated replacement cost	**4.0**	4.0
Freehold at cost	**141.3**	127.2
Cost of land and buildings as at 31 October	**145.3**	131.2

If stated under historical cost principles, the comparable amounts for the total of land and buildings would be:

	2022 £m	2021 £m
Cost	**144.5**	130.4
Accumulated depreciation	**(25.2)**	(21.9)
Historical cost value	**119.3**	108.5

All other tangible fixed assets are stated at historical cost.

At 31 October 2022, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £6.9m (2021: £10.4m).

Cash flows from purchases of property, plant and equipment are £31.5m (2021: £28.0m). The difference to the additions total presented above includes £3.8m (2021: £0.1m) non-cash movements related to right of use assets as well as the movement in accrued capital expenditure.

13. SUBSIDIARY UNDERTAKINGS

All subsidiary undertakings have been reflected in these financial statements. The subsidiary undertakings held at 31 October 2022, which have a single class of ordinary shares all 100% owned by the Group, are shown below. All of these subsidiary undertakings are wholly controlled by Chemring Group PLC, unless otherwise stated.

Subsidiary undertaking	Country of incorporation (or registration) and operation	Operating segment
Chemring Australia Pty Limited	Australia	Countermeasures & Energetics
B.D.L. Systems Limited	England	Dormant
Chemring Countermeasures Limited*	England	Countermeasures & Energetics
Chemring Energetics Limited*	England	Dormant
Chemring Europe Limited*	England	Dormant
Chemring Finance Europe Limited	England	Dormant
Chemring Investments Limited	England	Dormant
Chemring North America Unlimited	England	Dormant
Chemring Prime Contracts Limited*	England	Dormant
Chemring Technology Solutions Limited	England	Countermeasures & Energetics
CHG Overseas Investments Limited*	England	Dormant
CHG Overseas Limited*	England	Holding company
Cubica Technology Limited*	England	Sensors & Information
Greys Exports Limited	England	Dormant
Parkway No 10 Limited	England	Dormant
Q6 Holdings Limited*	England	Dormant
Richmond EEI Limited	England	Dormant
Richmond Electronics & Engineering Limited	England	Dormant
Roke Manor Research Limited*	England	Sensors & Information
Vigil AI Limited**	England	Sensors & Information
Chemring Nobel AS	Norway	Countermeasures & Energetics
Chemring Energetics UK Limited*	Scotland	Countermeasures & Energetics
Alloy Surfaces Company, Inc.	US	Countermeasures & Energetics
ASC Realty LLC	US	Property holding company
Chemring Energetic Devices, Inc.	US	Countermeasures & Energetics
Chemring North America Group, Inc.	US	Holding company
CHG Flares, Inc.	US	Holding company
CHG Group, Inc.	US	Holding company
Kilgore Flares Company LLC	US	Countermeasures & Energetics
Chemring Sensors & Electronic Systems, Inc.	US	Sensors & Information
Roke USA, Inc.	US	Sensors & Information
Tactical Systems and Ordnance, Inc.	US	Non-trading

* Shares directly held by Chemring Group PLC.

** 80% indirectly owned by Chemring Group PLC (see note 29).

CHG Overseas Limited, Cubica Technology Limited and Chemring Technology Solutions Limited are exempt from the requirement to file audited accounts for the year ended 31 October 2022 by virtue of section 479A of the Companies Act 2006. See page 173 for the registered offices of the subsidiary undertakings.

14. INVENTORIES

	2022 £m	2021 £m
Raw materials	**48.1**	36.6
Work in progress	**38.8**	27.2
Finished goods	**12.7**	16.9
	99.6	80.7

There are no significant differences between the replacement cost of inventory and the carrying amount shown above. The Group recognised £0.7m (2021: £2.3m) as a write down of inventories to net realisable value. See note 4 for details of cost of inventories recognised as an expense.

15. TRADE AND OTHER RECEIVABLES

	2022 £m	2021 £m
Trade receivables	**33.8**	41.2
Allowance for doubtful debts	**(0.5)**	(0.3)
	33.3	40.9
Advance payments to suppliers	**1.7**	0.5
Other receivables	**8.5**	3.7
Prepayments	**6.2**	5.5
Accrued income	**11.4**	10.0
	61.1	60.6

All amounts shown above are due within one year.

The average credit period taken by customers on sales of goods, calculated using a countback basis, is 17 days (2021: 25 days). No interest is charged on receivables from the date of invoice to payment.

Given the Group's customer base, expected credit losses are typically not material; however, the Group's policy is to provide in full for trade receivables outstanding for more than 120 days beyond agreed terms, unless there are facts and circumstances that support recoverability. As at 31 October 2022, £0.1m of gross trade receivables were aged greater than 30 days past due (2021: £0.8m).

The directors consider that the carrying amount of trade and other receivables approximates to their fair values.

Of the £10.0m of accrued income at 31 October 2021, £10.0m had been billed and paid in the year. Of the £11.4m of accrued income at 31 October 2022, over half was billed in the month after the reporting date. The remainder relates to the completion of performance obligations which will be billed at the next contractual milestone, which is expected within the next year.

Of the £8.5m (2021: £3.7m) of other receivables at 31 October 2022, £2.0m (2021: £nil) related to a short-term loan due from the Chemring Group Staff Pension Scheme to fund margin calls on liability driven investments, which was repaid in November 2022, and £4.8m (2021: £2.9m) related to research and development expenditure credits receivable.

16. CASH AND CASH EQUIVALENTS

Bank balances and cash comprise cash held by the Group and short-term deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value. For the purposes of the statement of cash flows, cash and cash equivalents comprises cash at bank of £19.8m (2021: £5.8m) less the bank overdraft included in short-term borrowings of £nil (2021: £0.4m), as the overdraft is held for the purpose of meeting short-term cash commitments.

17. BORROWINGS

	2022 £m	2021 £m
Within current liabilities		
Bank overdrafts	**—**	0.4
Borrowings due within one year	**—**	0.4
Within non-current liabilities		
Bank borrowings	**20.9**	28.1
Preference shares	**0.1**	0.1
Borrowings due after more than one year	**21.0**	28.2
Total borrowings	**21.0**	28.6

17. BORROWINGS continued

Analysis of borrowings by currency:

	2022 £m	2021 £m
Sterling	**0.1**	0.1
US dollar	**20.9**	28.5
	21.0	28.6

The weighted average interest rates paid were as follows:

		2022 %	2021 %
Bank overdrafts		**2.3**	1.0
UK bank loans	– Sterling denominated	**2.3**	—
	– US dollar denominated	**1.4**	1.9

An analysis of borrowings by maturity is as follows:

	2022			2021		
	Bank loans and overdrafts £m	Preference shares £m	Total £m	Bank loans and overdrafts £m	Preference shares £m	Total £m
Borrowings falling due:						
– within one year	**—**	**—**	**—**	0.4	—	0.4
Borrowings falling due:						
– within one to two years	**—**	**—**	**—**	—	—	—
– within two to five years	**20.9**	**—**	**20.9**	28.1	—	28.1
– after five years	**—**	**0.1**	**0.1**	—	0.1	0.1
	20.9	**0.1**	**21.0**	28.1	0.1	28.2
Total borrowings	**20.9**	**0.1**	**21.0**	28.5	0.1	28.6

The Group's principal debt facilities comprised a £150m revolving credit facility and a US$10m overdraft. These were established in July 2021 with a syndicate of six banks and run until December 2025 with two "one-year" options to extend at the lenders' discretion. None of the borrowings in the current or the prior year were secured.

There have been no breaches of the terms of the loan agreements during the current or prior year.

The Group has the following undrawn borrowing facilities available, in respect of which all conditions precedent have been met. Interest costs under these facilities are charged at floating rates.

	2022 £m	2021 £m
Undrawn borrowing facilities	**136.7**	128.1

The Group is subject to two key financial covenants, which are tested quarterly. These covenants relate to the leverage ratio between "underlying EBITDA" and net debt, and the interest cover ratio between underlying EBITDA and finance costs. The calculation of these ratios involves the translation of non-sterling denominated debt using average, rather than closing, rates of exchange and includes liabilities on foreign exchange forward contracts within its definition of net debt. Therefore the leverage ratio of 0.14 times differs to the ratio of 0.09 times that is disclosed elsewhere in the annual report and accounts, which is calculated using the closing rates of exchange and does not include liabilities on foreign exchange forward contracts within its definition of net debt. The Group was in compliance with the covenants throughout the year. The year-end leverage ratio was 0.14 times (covenant limit of 3 times) and the year-end interest cover ratio was 57 times (covenant floor of 4 times).

18. LEASES

The carrying amount, additions and depreciation charge for right-of-use assets by class of underlying asset is included in note 12.

The expense relating to short-term and low-value leases in the year was £0.9m (2021: £0.8m). In total, payments of £2.2m (2021: £1.6m) were made under leasing contracts. Included in the financing activities section of the cash flow is £2.1m (2021: £1.5m) to repay the principal portion of the lease and £0.1m (2021: £0.1m) to repay lease interest. Included in the operating activities section of the cash flow is £0.9m (2021: £0.8m) relating to short-term and low-value leases.

18. LEASES continued

A maturity analysis of the future undiscounted lease payments in respect of the Group's lease liabilities is presented in the table below:

	2022 £m	2021 £m
Lease liabilities falling due:		
– within one year	**1.8**	1.4
Lease liabilities falling due:		
– within one to two years	**0.8**	1.6
– within two to five years	**1.4**	1.0
– more than five years	**2.1**	—
	4.3	2.6
Impact of discounting	**(0.1)**	(0.2)
Lease liabilities included in balance sheet as at 31 October	**6.0**	3.8

19. TRADE AND OTHER PAYABLES

	2022 £m	2021 £m
Within current liabilities		
Trade payables	**14.7**	13.1
Other payables	**28.5**	29.0
Interest payable	**0.1**	—
Other tax and social security	**6.8**	4.7
Advance receipts from customers	**26.6**	17.1
Accruals	**17.6**	17.3
Deferred income	**3.9**	4.5
	98.2	85.7

Other payables of £28.5m (2021: £29.0m) includes payroll related creditors of £18.0m (2021: £21.7m).

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

Advance receipts from customers represent the obligation to transfer goods or services to a customer for which consideration has been received. The amount of £17.1m included in advance receipts from customers recognised at 31 October 2021 has been recognised as revenue in 2022 (2021: £22.8m). Of the £26.6m of advanced receipts from customers at 31 October 2022, £26.6m is relevant to goods and services that will be delivered and provided within a year. No revenue was recognised in 2022 from performance obligations satisfied in previous years.

The average credit period taken on purchases of goods is 18 days (2021: 18 days) using year-end trade payables divided by cost of sales. No interest is payable on trade payables from the date of invoice to payment.

20. FINANCIAL RISK MANAGEMENT

The Group uses financial instruments to manage financial risk wherever it is appropriate to do so. The main risks addressed by financial instruments are liquidity risk, foreign currency risk, interest rate risk and credit risk. The Group's policies in respect of the management of these risks, which remained unchanged throughout the year, are set out below.

(A) CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The impairment provisions for financial assets disclosed in note 15 "Trade and other receivables" are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history and existing market conditions, as well as forward-looking estimates at the end of each reporting period. Customers are mainly multinational organisations or government agencies with which the Group has long-term business relationships. The Group's principal customers are government defence departments, such as the US DoD and the UK Ministry of Defence ("UK MOD"), US and UK defence prime contractors, such as BAE Systems and General Dynamics, and distributors of products for their onward sale to end users.

The majority of revenue in 2022 related to the US DoD, the UK MOD and the US and UK defence prime contractors, which consistently pay within terms and are deemed low credit risk as a result. For all other customers the Group's policy is to trade under a letter of credit. If there is any doubt over recoverability, the Group's policy is to provide in full for trade receivables outstanding for more than 120 days beyond agreed terms. The balances which might be affected by credit risk are trade receivables and cash and cash equivalents.

20. FINANCIAL RISK MANAGEMENT continued

(B) CAPITAL MANAGEMENT

The Group manages its capital to ensure that all entities in the Group will be able to continue as a going concern while meeting the returns to stakeholders. The capital structure of the Group consists of equity (as disclosed in the consolidated statement of changes in equity), retained earnings, cash and cash equivalents (note 16) and a revolving credit facility ("RCF") (note 17). The Group seeks to manage its capital through an appropriate mix of these items. The Group's principal debt facilities comprised a £150m revolving credit facility and a US$10m overdraft. These were established in July 2021 with a syndicate of six banks and run until December 2025 with two "one-year" options to extend. As at 31 October 2022, the RCF was drawn by £21.7m (2021: £29.2m).

(C) FINANCIAL RISK MANAGEMENT

The primary risks that the Group is exposed to are liquidity risk, foreign currency risk, interest rate risk and credit risk. It is the Group's policy to manage these risks under the following policies:

i. Liquidity risk management

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due. The Group manages liquidity risk by maintaining adequate reserves and by continually monitoring forecast and actual cash flows. The Group's policy is to maintain continuity of funding through available cash and cash equivalents and the RCF.

ii. Foreign currency risk management

The Group's presentational currency is sterling. The Group is subject to exposure on the translation of the assets of foreign subsidiaries, whose functional currencies differ from the Group. The Group's primary balance sheet translation exposures are to the US dollar, Australian dollar and Norwegian krone. The Group minimises the balance sheet translation exposures, where it is practical to do so, by funding subsidiaries with long-term loans, on which exchange differences are taken to reserves. US dollar borrowings held by the Group are treated as a net investment hedge against the US dollar assets of the Group.

The Group faces currency exposures arising from the translation of profits earned in foreign currency. These exposures are not hedged. Exposures also arise from foreign currency denominated trading transactions undertaken by subsidiaries deemed transactional exposures. The Group's policy is to hedge transactional exposures above £250,000 in the banking market on a one-to-one basis using forward contracts. Below £250,000, the exposures are netted across subsidiaries and any surplus or deficit hedged in the banking market using spot or forward contracts. The Group's policy is that there is no speculative trading in financial instruments. During the year ended 31 October 2022, there were no options or structured derivatives utilised.

iii. Interest rate risk management

The Group finances its operations through a combination of retained profits and bank borrowings. The UK borrowings are denominated in sterling and US dollars, and at the shorter end are subject to floating rates of interest.

IFRS 9 FINANCIAL INSTRUMENTS

Chemring Group PLC is not a financial institution and does not have any complex financial instruments. The Group does not apply hedge accounting to derivatives and the Group's customers are generally governments that are considered creditworthy and pay consistently within agreed payment terms.

	2022		2021	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Assets carried at amortised cost				
Trade receivables	**33.3**	**33.3**	40.9	40.9
Cash and cash equivalents	**19.8**	**19.8**	5.8	5.8
Assets carried at fair value				
Derivative financial instruments	**0.7**	**0.7**	1.0	1.0
Liabilities carried at fair value				
Derivative financial instruments	**(5.3)**	**(5.3)**	(0.4)	(0.4)
Liabilities carried at amortised cost				
Trade payables	**(14.7)**	**(14.7)**	(13.1)	(13.1)
Other payables	**(28.5)**	**(28.5)**	(29.0)	(29.0)
Interest payable	**(0.1)**	**(0.1)**	—	—
Borrowings	**(21.0)**	**(21.0)**	(28.6)	(28.6)

The following items are not financial instruments as defined by IFRS 9:

(a) prepayments made/advances received (right to receive future goods or services, not cash or a financial asset);

(b) tax receivables and payables and similar items (statutory rights and obligations, not contractual); or

(c) deferred revenue and warranty obligations (obligations to deliver goods and services, not cash or financial assets).

21. FINANCIAL INSTRUMENTS

The following table details the fair value of derivative financial instrument assets/(liabilities) recognised in the balance sheet:

	2022 £m	2021 £m
Included in current assets	**0.7**	1.0
Included in current liabilities	**(4.2)**	(0.4)
	(3.5)	0.6
Included in non-current liabilities	**(1.1)**	—
Forward foreign exchange contracts	**(4.6)**	0.6

There was a £4.1m loss (2021: £0.7m gain) on the movement in the fair value of derivative financial instruments recognised in the income statement.

The table below details the remaining contractual maturities of the Group's derivative financial instruments and loans at the reporting date. The amounts are gross and undiscounted and include interest payments estimated based on the conditions existing at the reporting date.

	2022			2021		
	Derivative instruments £m	Loans and overdrafts £m	Total £m	Derivative instruments £m	Loans and overdrafts £m	Total £m
Falling due:						
– within one year	**(3.5)**	**(0.3)**	**(3.8)**	0.6	(0.7)	(0.1)
– within one to two years	**(1.1)**	**(0.3)**	**(1.4)**	—	(0.3)	(0.3)
– within two to five years	**—**	**(21.3)**	**(21.3)**	—	(28.4)	(28.4)
	(4.6)	**(21.9)**	**(26.5)**	0.6	(29.4)	(28.8)

A maturity analysis of the contracted cash outflows on lease liabilities is provided in note 18.

FAIR VALUE HIERARCHY

IFRS 7 *Financial Instruments: Disclosures* requires companies that carry financial instruments at fair value in the balance sheet to disclose their level of hierarchy, determining into which category those financial instruments fall under the fair value hierarchy.

The fair value measurement hierarchy is as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (i.e. as unobservable inputs).

The following tables present the Group's assets and liabilities that are measured at fair value:

		2022		2021	
	Fair value hierarchy	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Held at fair value					
Derivative financial instruments – assets	Level 2	**0.7**	**0.7**	1.0	1.0
Derivative financial instruments – liabilities	Level 2	**(5.3)**	**(5.3)**	(0.4)	(0.4)
		(4.6)	**(4.6)**	0.6	0.6

The fair value of derivative financial instruments is estimated by discounting the future contracted cash flow, using readily available market data.

SENSITIVITY ANALYSIS

For the year ended 31 October 2022 the closing exchange rate for the US dollar was 1.15 (2021: 1.37) and the average exchange rate was 1.23 (2021: 1.38).

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

21. FINANCIAL INSTRUMENTS continued

SENSITIVITY ANALYSIS continued

The following table details the Group's sensitivity to a 10 cent movement in the US dollar rate against sterling with regards to its income statement. The Group considers a 10 cent strengthening or weakening of US dollars against sterling as a reasonably possible change in foreign exchange rates. The other functional currencies used in the Group (Norwegian krone and Australian dollars) are not significant enough to have a material impact on the Group results in the event of a reasonably possible change to their exchange rates.

Continuing operations	+10 cents US dollar impact 2022 £m	+10 cents US dollar impact 2021 £m	–10 cents US dollar impact 2022 £m	–10 cents US dollar impact 2021 £m
Revenue	**(14.2)**	(14.2)	**20.6**	15.8
Underlying operating profit	**(0.8)**	(2.4)	**1.0**	2.8
Interest	**—**	—	**—**	—
Underlying profit before tax	**(0.8)**	(2.4)	**1.0**	2.8

As at 31 October 2022, 78% of the Group's gross debt was at a fixed rate of 1.37% and the remainder was at floating rates. The Group monitors its exposure to movements in interest rates, having regard to prevailing market conditions, and considers the use of interest rate swaps on an ongoing basis to manage this exposure. The Group has not entered into any interest rate swaps as of 31 October 2022.

As the Group mainly has fixed interest rate debt, a change in interest rates would not have an immediate significant impact on the income statement. A change in interest rates of 1% throughout the year would cause the Group's finance expense to change by £0.2m.

22. PROVISIONS

	Legal provision £m	Environmental provision £m	Disposal provision £m	Total £m
At 31 October 2021	5.6	3.0	8.9	17.5
Transfer from trade and other payables	—	0.3	—	0.3
Transfer	(1.8)	—	1.8	—
Foreign exchange adjustments	—	0.7	0.4	1.1
Paid	(0.3)	(0.1)	(0.1)	(0.5)
At 31 October 2022	**3.5**	**3.9**	**11.0**	**18.4**

These provisions are classified on the balance sheet as follows:

	2022 £m	2021 £m
Included in current liabilities	**1.6**	2.6
Included in non-current liabilities	**16.8**	14.9
	18.4	17.5

The legal provision represents the estimated legal liabilities faced by the Group at the balance sheet date. There are uncertainties regarding the range of possible outcomes and timing of cash outflows, dependent on the outcome of court proceedings. Further details of the Group's contingent liabilities are set out in note 33.

The environmental provision is held in respect of potential liabilities, associated with the Group's facility in Chicago, US. The range of possible outcomes is between £1.4m and £9.1m. There are uncertainties regarding the timing of cash outflows, dependent on the outcome of regulatory proceedings.

The disposal provision relates to estimated liabilities faced by the Group in respect of the disposal of its European Munitions businesses in 2014 and its commoditised energetics businesses in Derby and Florida in 2019 and 2020 respectively, under the terms of their respective sale agreements. The range of possible outcomes is between £nil and £25.7m, and the risk of economic outflow relating to these reduces with the passage of time. These are expected to be utilised over the next five years.

Provisions are subject to uncertainty in respect of the outcome of future events. Legal provisions will be utilised based on the outcome of cases and the level of costs incurred defending the Group's position. Environmental provisions will be utilised based on the outcome of further environmental studies and remediation work. Disposal provisions will be utilised based on the outcome of certain events which are specified in sale and purchase agreements. It is not possible to estimate more accurately the expected timing of any resulting outflows of economic benefits.

23. DEFERRED TAX

The following are the principal deferred tax assets/(liabilities) recognised by the Group and movements thereon:

	Accelerated tax depreciation £m	Pensions £m	US interest deductions £m	Tax losses £m	Acquired intangibles £m	Other £m	Total £m
At 1 November 2020	(8.6)	(1.5)	—	9.2	(7.9)	1.6	(7.2)
(Charge)/credit to income	(3.2)	—	4.0	(3.3)	1.8	(1.3)	(2.0)
Credit/(charge) to other comprehensive income	0.2	(2.2)	(0.2)	(0.2)	0.2	—	(2.2)
Recognised on acquisition	—	—	—	—	(1.1)	—	(1.1)
Transfers	(7.8)	—	—	(0.1)	—	7.9	—
At 31 October 2021	(19.4)	(3.7)	3.8	5.6	(7.0)	8.2	(12.5)
(Charge)/credit to income	(11.5)	—	3.5	6.3	(0.6)	1.2	(1.1)
(Charge)/credit to other comprehensive income	(2.2)	0.8	0.8	1.0	(0.7)	1.0	0.7
Transfers	0.1	—	—	—	(0.1)	—	—
At 31 October 2022	**(33.0)**	**(2.9)**	**8.1**	**12.9**	**(8.4)**	**10.4**	**(12.9)**
Analysed as:							
Deferred tax assets	0.3	—	8.1	12.9	—	11.0	32.3
Deferred tax liabilities	(33.3)	(2.9)	—	—	(8.4)	(0.6)	(45.2)
At 31 October 2022	**(33.0)**	**(2.9)**	**8.1**	**12.9**	**(8.4)**	**10.4**	**(12.9)**
Deferred tax assets	0.4	—	3.8	5.6	—	8.4	18.2
Deferred tax liabilities	(19.8)	(3.7)	—	—	(7.0)	(0.2)	(30.7)
At 31 October 2021	(19.4)	(3.7)	3.8	5.6	(7.0)	8.2	(12.5)

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. Deferred tax balances after offset are analysed on the balance sheet as per the table above.

Deferred tax balances of £10.4m (2021: £8.2m) within the "Other" category above include temporary differences arising on provisions and accruals.

The UK Finance Bill 2021 was published on 11 March 2021 and substantively enacted on 24 May 2021. The bill provides for an increase in the rate of corporation tax from 19% to 25% with effect from 1 April 2023. UK deferred tax balances have been calculated in accordance with these rate changes.

At the balance sheet date, the Group had unrecognised deferred tax of £3.7m (2021: £4.5m) on gross tax losses of £21.2m (2021: £45.3m) and unrecognised deferred tax of £18.2m (2021: £16.5m) on gross interest deductions of £72.2m (2021: £77.3m) as a result of US interest limitation regulations, potentially available for offset against future profits in certain circumstances. The Group also had unrecognised deferred tax of £1.5m (2021: £1.2m) on gross capital losses of £6.9m (2021: £5.9m). No deferred tax asset has been recognised in respect of these amounts because of the unpredictability of future taxable qualifying profit streams. The aforementioned gross interest deductions are available indefinitely with no fixed expiry date, while the gross tax losses and gross capital losses expire in 2031 and 2026 respectively.

The Group has not recognised any deferred tax liability on temporary differences relating to potentially taxable unremitted earnings of overseas subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and none are expected to reverse in the foreseeable future.

During the year ended 31 October 2021 £7.9m of deferred tax liabilities relating to development costs were reclassified to accelerated tax depreciation via the transfers line.

24. SHARE CAPITAL

	2022 £m	2021 £m
Issued and fully paid		
283,541,742 (2021: 283,149,511) ordinary shares of 1p each	**2.8**	2.8

During the year, 392,231 ordinary shares (2021: 299,581) were issued for cash to employees under the Group's approved savings-related share schemes.

The Company's share capital also includes 62,500 7% cumulative preference shares of £1 each, which are all issued and fully paid up, and are classified for accounting purposes within non-current liabilities. The cumulative preference shares carry an entitlement to a dividend at the rate of 7p per share per annum, payable in equal instalments on 30 April and 31 October each year. Holders of the preference shares have the right on a winding-up to receive, in priority to any other classes of shares, the sum of £1 per share together with any arrears of dividends.

25. RESERVES

The share premium account, the special capital reserve and the revaluation reserve are not distributable.

The special capital reserve was created as part of a capital reduction scheme involving the cancellation of the share premium account which was approved by the Court in 1986, in accordance with the requirements of the Companies Act 1985.

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations and the accumulation of gains or losses from the effective portion of hedges of net investments in foreign operations.

Included within retained earnings is £7.3m (2021: £7.6m) of the Company's own shares held by the Group's Employee Share Ownership Plan Trust ("ESOP") which is treated as a branch of the parent company. The ESOP purchased 2,467,329 shares during the year (2021: 2,242,342) and 2,607,129 shares (2021: 846,369) were distributed following the vesting of awards under the deferred bonus and PSP schemes. The total number of ordinary shares held by the ESOP at 31 October 2022 was 2,443,709 (2021: 2,583,509).

Group dividends (note 8) are payable out of the parent company retained earnings as disclosed in the parent company financial statements. This provides cover over the declared final dividend of 3.8p per ordinary share for the year ended 31 October 2022.

26. OWN SHARES

	2022 £m	2021 £m
At 1 November 2021	—	2.9
Transactions	—	(2.9)
At 31 October 2022	—	—

The own shares reserve represents the cost of shares in the Company purchased in the market and held by the Group to satisfy awards under the Group's share-based incentive schemes, details of which are set out in note 27. Nil ordinary shares (2021: nil) were acquired during the year and nil ordinary shares (2021: 675,592) were distributed following the vesting of awards under the PSP. The total number of ordinary shares held in treasury at 31 October 2022 was nil (2021: nil).

27. SHARE-BASED PAYMENTS

The Group operates share-based compensation arrangements to provide incentives to the Group's senior management and eligible employees. The Group recognised a net charge of £7.4m (2021: £5.7m) in respect of share-based payments during the year, of which £1.0m (2021: £0.4m) is included in non-underlying costs.

Details of the four schemes which operated during the year are set out below.

THE CHEMRING GROUP PERFORMANCE SHARE PLAN 2016 (THE "2016 PSP")

Under the 2016 PSP, conditional awards of ordinary shares are made at nil cost to employees. Awards ordinarily vest on the third anniversary of the award date.

	2016 PSP Number of conditional shares	
	2022	2021
Outstanding at the beginning of the year	**6,218,961**	6,185,176
Awarded	**2,386,342**	1,791,635
Vested	**(2,374,231)**	(1,358,817)
Lapsed	**(243,743)**	(399,033)
Outstanding at the end of the year	**5,987,329**	6,218,961
Subject to vesting at the end of the year	**—**	—

The following awards were outstanding at 31 October 2022:

Date of award	Number of ordinary shares under award	Vesting price per share Pence	Date when awards due to vest
17 December 2019	2,027,806	nil	17 December 2022
16 December 2020	1,658,830	nil	16 December 2023
15 December 2021	2,300,693	nil	15 December 2024

The Group has applied a discount to the share-based payments, to reflect the anticipated achievement of the stipulated targets for each 2016 PSP award based on the predicted figures within the Group's financial projections and the expected number of leavers over the life of the awards.

27. SHARE-BASED PAYMENTS continued

THE CHEMRING GROUP PERFORMANCE SHARE PLAN 2016 (THE "2016 PSP") continued

The 2016 PSP awards made in the year ended 31 October 2022 had targets based on earnings per share growth and total shareholder return. The awards have been valued using the following modelling inputs:

	Date awarded		
	15 December 2021	16 December 2020	17 December 2019
Share price at valuation	284p	300p	210p
Exercise price	nil	nil	nil
Risk-free rate	0.5%	0.5%	0.5%
Expected volatility	29.1%	29.1%	29.1%
Fair value	232.9p	246.4p	172.5p

The weighted average fair value of awards made during the year was 232.9p (2021: 246.4p).

In the year ended 31 October 2022 2,374,231 awards vested (2021: 1,358,817). The charge recognised in respect of the awards is based on their fair value at the grant date.

THE CHEMRING GROUP 2008 AND 2018 UK SHARESAVE PLAN (THE "UK SHARESAVE PLAN")

Options were granted during the year on 1 September 2022.

	2022		2021	
	Number of share options	**Weighted average exercise price Pence**	Number of share options	Weighted average exercise price Pence
Outstanding at the beginning of the year	**1,770,380**	**197.4**	1,773,742	177.7
Granted	**664,054**	**264.0**	481,085	240.0
Exercised	**(362,049)**	**153.4**	(299,581)	158.1
Lapsed	**(194,040)**	**198.3**	(184,866)	183.0
Outstanding at the end of the year	**1,878,345**	**229.3**	1,770,380	197.4
Subject to exercise at the end of the year	**5,056**	**178.0**	22,243	178.0

The following options were outstanding at 31 October 2022:

Date of award	Number of ordinary shares under award	Exercise price per share Pence	Dates between which options may be exercised
27 July 2017	2,432	148.0	1 October 2022–31 March 2023
30 July 2018	46,847	178.0	1 October 2023–31 March 2024
29 July 2019	76,196	154.0	1 October 2022–31 March 2023
29 July 2019	26,881	154.0	1 October 2024–31 March 2025
30 July 2020	541,211	202.0	1 October 2023–31 March 2024
30 July 2020	83,162	202.0	1 October 2025–31 March 2026
26 July 2021	361,185	240.0	1 October 2024–31 March 2025
26 July 2021	73,025	240.0	1 October 2026–31 March 2027
1 September 2022	553,821	264.0	1 October 2025–31 March 2026
1 September 2022	108,529	264.0	1 October 2027–31 March 2028

The weighted average fair value of options granted in the year was 34.0p (2021: 57.0p). The weighted average fair value of options exercised in the year was 30.7p (2021: 38.6p). The weighted average share price on exercise of the options during the year was 153.4p (2021: 158.1p).

The fair values of the share options in the UK Sharesave Plan are based on the difference between the exercise price and the share price on the grant date of the option.

27. SHARE-BASED PAYMENTS continued

DEFERRED BONUS SHARE AWARDS

Under the deferred bonus share awards, deferred awards of ordinary shares are made at nil cost to employees. Awards ordinarily vest on the second or third anniversary of the award date.

	Number of deferred shares	
	2022	2021
Outstanding at the beginning of the year	**766,171**	615,365
Awarded	**456,232**	351,832
Vested	**(225,621)**	(132,919)
Lapsed	**(59,727)**	(68,107)
Outstanding at the end of the year	**937,055**	766,171
Subject to vesting at the end of the year	**—**	—

The following awards were outstanding at 31 October 2022:

Date of award	Number of ordinary shares under award	Share price at valuation Pence	Vesting price per share Pence	Date when awards are due to vest
16 December 2019	205,576	210p	nil	16 December 2022
15 December 2020	156,431	300p	nil	15 December 2022
15 December 2020	147,500	300p	nil	15 December 2023
14 December 2021	231,491	284p	nil	14 December 2023
14 December 2021	170,336	284p	nil	15 December 2024

The fair value of the deferred bonus share awards is based on the share price on the grant date of the award. The weighted average fair value of awards made during the year was 284p (2021: 300p). The Group has applied a discount to the share-based payments, to reflect the expected number of leavers over the life of the awards.

DEFERRED SHARES RELATED TO ACQUISITION

Deferred consideration in relation to the acquisition of the "Cubica Group" of up to £2.0m has been accounted for as equity-settled share-based payments under IFRS 2. See note 28 for further detailed disclosure.

The deferred consideration is comprised of two tranches of 326,792 Chemring ordinary shares each, valued at £2.0m based on the share price on 2 June 2021 of 307p. The first tranche will vest on the second anniversary of completion, 2 June 2023, and the second tranche will vest on the third anniversary of completion, 2 June 2024, subject to continued employment with Chemring Group PLC.

No further awards were granted during the year ended 31 October 2022 (2021: 653,584) in respect of the Cubica Group acquisition. Nil vested or lapsed in the year (2021: nil) and 653,584 are outstanding at the end of the period. Nil were subject to vesting at the end of the year (2021: 653,584).

The fair value of the deferred share awards is based on the share price on the grant date of the award. The weighted average fair value of awards made during the prior year was 307p.

28. ACQUISITION OF SUBSIDIARY

ACQUISITIONS IN THE PRIOR YEAR ENDED 31 OCTOBER 2021

Acquisition of the Cubica Group

On 2 June 2021, Chemring Group PLC acquired 100% of the issued shares in Cubica Technology Limited ("Cubica") and Q6 Holdings Limited ("Q6"), collectively the "Cubica Group". The Cubica Group specialises in machine learning, data fusion and autonomous systems. The acquisition has strong synergies to Roke and will expand the Group's existing capabilities and product offerings.

The acquisition has been completed for an initial cash consideration of £7.0m, funded from Chemring's existing bank facilities. Further deferred consideration of up to £2.0m 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. The operating results and assets and liabilities of the acquired company have been consolidated from 3 June 2021.

The deferred consideration of £2.0m is contingent on continued employment of the former owners. In accordance with IFRS 3 these costs have been 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 £1.6m have been classified as non-underlying costs in the statement of profit or loss in the reporting period ended 31 October 2021.

Since acquisition to 31 October 2021, the Cubica Group contributed revenue of £0.6m and an operating profit of £0.3m to the Group's results. If the acquisition had occurred on 1 November 2020, we estimate that its revenue would have been £1.4m, and operating profit for the year would have been £0.8m. 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 2020.

28. ACQUISITION OF SUBSIDIARY continued

ACQUISITIONS IN THE PRIOR YEAR ENDED 31 OCTOBER 2021 continued

Details of the consideration transferred were:

	£m
Cash paid	7.0
Total purchase consideration	7.0
Less cash acquired	(1.9)
Net cash outflow	5.1

The fair values of the assets and liabilities of the Cubica Group as at the date of acquisition were as follows:

	Fair value £m
Cash and cash equivalents	1.9
Trade and other receivables	0.4
Trade and other payables	(1.4)
Current tax	(0.5)
Intangible assets: customer relationships	2.1
Intangible assets: technology	2.5
Deferred tax liability	(1.1)
Net identifiable assets	3.9
Less: non-controlling interests	—
Add: Goodwill	3.1
Net assets acquired	7.0

The net assets recognised in the 31 October 2021 annual report were based on a provisional assessment of their fair value. The Group stated that if new information were obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition and identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition would be revised. The Group has not identified any such information that therefore no changes were required to the accounting for the acquisition.

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.

The fair value of the trade receivables amounted to £0.3m. The gross amount of trade receivables were £0.3m and the full contractual amounts were collected.

Q6 owns 80% of the issued shares of Vigil AI Limited ("Vigil AI"), which has technology providing state-of-the-art solutions to enable online platforms to detect imagery relating to child sexual exploitation globally. The Group has chosen to measure the non-controlling interests at the proportionate share of the value of net identifiable assets acquired. See page 159 for further detail.

29. RETIREMENT BENEFIT OBLIGATIONS

In the UK, the Group operates a defined benefit scheme (the "Chemring Group Staff Pension Scheme"). The Group's other UK and overseas pension arrangements are all defined contribution schemes, with a combined cost of £7.3m (2021: £6.0m) for continuing operations. Chemring Nobel operated a defined benefit pension scheme that was closed in October 2022 and the liability transferred to an insurance company. The net deficit of the Chemring Nobel Scheme as at 31 October 2021 was £nil and as such was immaterial for disclosure in the prior year comparisons.

The Chemring Group Staff Pension Scheme is a funded scheme and the assets of the scheme are held in a separate trustee administered fund. The scheme was closed to future accrual on 6 April 2012. A full actuarial valuation for the Scheme as at 6 April 2021 has been prepared and updated to 31 October 2022, using the projected unit credit method. The main assumptions for the scheme are detailed below. The surplus of the Chemring Group Staff Pension Scheme was £11.2m at 31 October 2022 (2021: £13.7m).

Under the funding plan agreed with the trustees following the 2021 actuarial valuation, no further deficit recovery payments are required. The Company and the trustees monitor funding levels annually, and a new funding plan is agreed with the trustees every three years, based on actuarial valuations. The next actuarial valuation is due as at 6 April 2024 at which point funding requirements will be reassessed.

The trust deed provides for an unconditional right to a return of surplus assets in the event of a plan wind-up. The trustees are given no rights to unilaterally wind up or augment the benefits due to members of the scheme. Based on these rights, any net surplus in the UK scheme is recognised in full.

29. RETIREMENT BENEFIT OBLIGATIONS continued

The movement in the net defined benefit asset is as follows:

	Defined benefit obligations		Defined benefit asset		Net defined benefit asset	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
At 1 November	**(90.9)**	(91.3)	**104.6**	98.9	**13.7**	7.6
Included in profit or loss						
Administrative expenses	**—**	—	**(0.3)**	(0.3)	**(0.3)**	(0.3)
Net interest (cost)/credit	**(1.6)**	(1.5)	**1.8**	1.7	**0.2**	0.2
	(1.6)	(1.5)	**1.5**	1.4	**(0.1)**	(0.1)
Included in other comprehensive income						
Remeasurement (loss)/gain:						
Actuarial (loss)/gain arising from:						
– demographic and financial assumptions	**29.9**	(2.4)	**—**	—	**29.9**	(2.4)
– experience adjustment	**(1.8)**	0.9	**—**	—	**(1.8)**	0.9
– return on plan assets excluding interest income	**—**	—	**(30.4)**	7.7	**(30.4)**	7.7
	28.1	(1.5)	**(30.4)**	7.7	**(2.3)**	6.2
Other						
Settlements	**0.9**	—	**(1.0)**	—	**(0.1)**	—
Net benefits paid out	**3.3**	3.4	**(3.3)**	(3.4)	**—**	—
At 31 October	**(60.2)**	(90.9)	**71.4**	104.6	**11.2**	13.7

The Chemring Group Staff Pension Scheme had 828 members at the end of the year (2021: 884). Of these members 58.9% (2021: 57.8%) were pensioners drawing benefits from the scheme and the balance were deferred members. The duration of the liability is long, with pension payments expected to be made for at least the next 40 years.

The pension scheme's assets are analysed as follows:

	2022 £m	2021 £m	**2022 %**	2021 %
Equities	**—**	18.4	**—**	17.6
Liability driven investment	**25.3**	24.7	**35.4**	23.6
Diversified alternatives	**26.9**	27.3	**37.6**	26.1
Multi-asset credit	**7.8**	23.3	**10.9**	22.3
Assets held by insurance company	**1.1**	1.5	**1.5**	1.4
Cash	**10.3**	9.4	**14.6**	9.0
	71.4	104.6	**100.0**	100.0

Liability driven investments, diversified alternatives and multi-asset credit assets are either pooled or unpooled investment vehicles. Unpooled investment vehicles which are not quoted on active markets, have been valued at the latest available bid price or single price provided by the pooled investment manager. Where funds are valued weekly the value is taken as at the week ending immediately before or after the year end date. Shares in other pooled arrangements have been valued at the latest available net assets value, determined in accordance with fair value principles, provided by the pooled investment manager.

The scheme's assets are invested in accordance with the statement of investment principles after taking professional advice from the scheme's investment advisers. The investment strategy is to split the assets into a growth portfolio of diversified assets and a matching portfolio of leveraged liability driven pooled funds.

The scheme's liability matching portfolio is invested in leveraged pooled liability driven investment ("LDI") funds and a liquidity fund. The trustees target an interest rate and inflation hedge ratio of around 100% (based on the scheme's technical provisions funding basis).

As at 31 October 2022, the Group loaned £2.0m to the Chemring Group Staff Pension Scheme representing a short-term loan to fund margin calls on liability driven investments. This is included in the cash amount above and was repaid in November 2022.

The principal assumptions used in the actuarial valuation of the Chemring Group Staff Pension Scheme were as follows:

		2022 %	2021 %
Discount rate		**4.9**	1.8
Inflation	– RPI	**3.1**	3.4
	– CPI	**2.7**	2.7

29. RETIREMENT BENEFIT OBLIGATIONS continued

In determining defined benefit obligations, the Group uses mortality assumptions which are based on published mortality tables. For the Chemring Group Staff Pension Scheme, the actuarial table currently used is S3PA tables (series 3 of the SAPS tables) with future improvements in line with CMI 2021 and a 1.25% long-term trend rate.

This results in the following life expectancies at age 65:

		2022	2021
Future pensioners	– male	**88.2**	88.6
	– female	**90.4**	90.6
Current pensioners	– male	**87.4**	87.7
	– female	**89.0**	89.2

While the vaccination programme has significantly reduced the number of deaths directly attributable to CV-19, the impact of the pandemic on future mortality rates remains uncertain. At this stage the Group has assumed CV-19 will have no lasting impact on mortality rates and that life expectancies will return to pre-pandemic expectations. We will continue to monitor and assess this at future reporting dates.

The most significant assumptions in the pension valuation are the discount rate applied to the liabilities, the inflation rate to be applied to pension payments and the mortality rates. If the discount rate used in determining retirement benefit obligations were to change by 0.1% then it is predicted that the deficit in the scheme would change by approximately £0.8m. A change in the rate of inflation by 0.1% is predicted to change the deficit by approximately £0.4m and a 10% change to the mortality assumption would change the deficit by approximately £1.7m. The principal risks to the scheme are that the investments do not perform as well as expected, the discount rate continues to rise driven by higher market interest rates, short-term movements in inflation, and the rate of improvement in mortality assumed is insufficient and life expectancies continue to rise.

The Group anticipates contributions to the defined benefit scheme for the year ending 31 October 2023 will be £nil (2022: £nil).

30. CASH GENERATED FROM OPERATING ACTIVITIES

	Notes	2022 £m	2021 £m
Operating profit from continuing operations		**53.3**	50.4
Amortisation of development costs	11	**0.1**	0.6
Amortisation of intangible assets arising from business combinations	11	**4.6**	6.2
Amortisation of patents and licences	11	**0.1**	0.1
Impairment of development costs		**2.2**	—
(Profit)/loss on disposal of non-current assets		**(1.9)**	0.1
Depreciation of property, plant and equipment	12	**18.1**	18.2
Non-cash movement of non-underlying items		**6.1**	0.9
Share-based payment expense	27	**6.4**	5.3
Operating cash flows before movements in working capital		**89.0**	81.8
(Increase)/decrease in inventories		**(6.4)**	7.9
Decrease in trade and other receivables		**4.5**	0.9
Increase/(decrease) in trade and other payables		**2.9**	(10.3)
Increase/(decrease) in provisions		**0.1**	(0.3)
Operating cash flow from continuing underlying operations		**90.1**	80.0
Discontinued operations			
Cash impact of non-underlying items from discontinued operations		**—**	(0.4)
Net cash outflow from discontinued operating activities		**—**	(0.4)
Net cash inflow from discontinued investing activities		**—**	0.4
Net cash inflow from discontinued operations		**—**	—

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

	2022 £m	2021 £m
Increase/(decrease) in cash and cash equivalents	**14.2**	(9.6)
Decrease in debt and lease financing due to cash flows	**13.2**	29.2
Decrease in net debt resulting from cash flows	**27.4**	19.6
Effect of foreign exchange rate changes	**(4.2)**	2.7
New leases entered into, lease interest and other non-cash movements	**(3.5)**	(0.1)
Amortisation of debt finance costs	**(0.3)**	(0.6)
Movement in net debt	**19.4**	21.6
Net debt at the beginning of the year	**(26.6)**	(48.2)
Net debt at the end of the year	**(7.2)**	(26.6)

32. ANALYSIS OF NET DEBT

	At 1 November 2021 £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	At 31 October 2022 £m
Cash and cash equivalents (including bank overdraft)	5.4	14.2	—	0.2	**19.8**
Debt due after one year	(28.1)	11.0	(0.3)	(3.5)	**(20.9)**
Preference shares	(0.1)	—	—	—	**(0.1)**
	(22.8)	25.2	(0.3)	(3.3)	**(1.2)**
Lease liabilities	(3.8)	2.2	(3.5)	(0.9)	**(6.0)**
	(26.6)	27.4	(3.8)	(4.2)	**(7.2)**

Accrued interest is included in the carrying amount of interest payable (note 19) measured at amortised cost and therefore is not presented as a separate line item in the above table.

33. 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.

COUNTERMEASURES UK INCIDENT

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

34. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions with the Group's pension schemes are disclosed in note 29. As at 31 October 2022, £2.0m was due from the Chemring Group Staff Pension Scheme representing a short-term loan to fund margin calls on liability driven investments which was repaid in November 2022. The amount receivable has been classified in other receivables on the consolidated balance sheet.

REMUNERATION OF KEY MANAGEMENT PERSONNEL

The directors of the Company had no material transactions with the Company during the year, other than in connection with their service agreements. The remuneration of the executive directors is determined by the Remuneration Committee, having regard to the performance of the individuals and market trends. The remuneration of the non-executive directors is determined by the Board, having regard to the practice of other companies and the particular demands of the Group.

For the purposes of remuneration disclosure, key management personnel includes only the directors and excludes the other senior business managers and members of the Executive Committee. Further information on the remuneration of individual directors is provided in the audited part of the directors' remuneration report on pages 96 to 119.

Total emoluments for key management personnel charged to the consolidated income statement were:

	2022 £m	2021 £m
Short-term employee benefits	**3.2**	2.8
Post-employment benefits	**0.2**	0.2
Share-based payment benefits	**2.4**	1.7
Total remuneration of key management personnel	**5.8**	4.7

STRATEGIC REPORT GOVERNANCE FINANCIAL STATEMENTS

35. EVENTS SINCE THE END OF THE YEAR

(A) ACQUISITION OF GEOLLECT

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

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

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

Based on unaudited accounts, in the 12 months to 31 October 2021, Geollect reported a loss before tax of £0.3m (2020: £0.3m) on revenue of £0.8m (2020: £0.7m). The gross assets of Geollect at 31 October 2021 were £0.4m (2020: £0.5m), and net assets at 31 October 2021 were £0.0m (2020: £0.1m).

Costs in relation to this acquisition for the year ended 31 October 2022 have been classified as non-underlying costs in the statement of profit or loss and are included within the acquisition costs of £2.0m, see note 3.

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

PARENT COMPANY BALANCE SHEET

As at 31 October 2022

	Note	2022 £m	2022 £m	2021 £m	2021 £m
Non-current assets					
Property, plant and equipment	1	**0.2**		0.2	
Investments in subsidiaries	2	**766.6**		786.6	
Amounts owed by subsidiary undertakings	3	**10.7**		69.2	
Retirement benefit surplus	12	**5.8**		7.2	
Deferred tax	11	**0.8**		—	
			784.1		863.2
Current assets					
Trade and other receivables	3	**23.2**		5.1	
Cash and cash equivalents		**—**		—	
			23.2		5.1
Total assets			**807.3**		868.3
Current liabilities					
Trade and other payables	4	**(30.7)**		(11.1)	
			(30.7)		(11.1)
Non-current liabilities					
Borrowings	5	**(21.8)**		(42.5)	
Trade and other payables	4	**(1.1)**		—	
Provisions	7	**(8.2)**		(7.1)	
Deferred tax	11	**—**		(0.9)	
Preference shares	8	**(0.1)**		(0.1)	
			(31.2)		(50.6)
Total liabilities			**(61.9)**		(61.7)
Net assets			**745.4**		806.6
Equity					
Share capital	9		**2.8**		2.8
Share premium account			**307.7**		307.1
Special capital reserve			**12.9**		12.9
Retained earnings			**422.0**		483.8
Total equity			**745.4**		806.6

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

In accordance with the concession granted under section 408 of the Companies Act 2006, the profit and loss account of Chemring Group PLC has not been presented separately in these financial statements. There is no material difference between the results disclosed and the results on an unmodified historical cost basis. The Company reported a loss for the year ended 31 October 2022 of £45.1m (2021: £24.6m profit).

These financial statements of Chemring Group PLC (registered number 86662) were approved and authorised for issue by the Board of directors on 13 December 2022.

Signed on behalf of the Board

Michael Ord
Director

Andrew Lewis
Director

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 October 2022

	2022 £m	2021 £m
(Loss)/profit after tax attributable to equity holders of the parent as reported	**(45.1)**	24.6
Items that will not be reclassified subsequently to profit and loss		
Remeasurement of the defined benefit pension scheme, net of deferred tax	**(0.9)**	2.1
Total comprehensive (loss)/income attributable to the equity holders of the parent	**(46.0)**	26.7

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 October 2022

	Share capital £m	Share premium account £m	Special capital reserve £m	Retained earnings £m	Total £m
At 1 November 2021	2.8	307.1	12.9	483.8	806.6
Loss after tax	—	—	—	(45.1)	(45.1)
Other comprehensive loss	—	—	—	(0.9)	(0.9)
Total comprehensive loss	—	—	—	(46.0)	(46.0)
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**	**422.0**	**745.4**

	Share capital £m	Share premium account £m	Special capital reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2020	2.8	306.7	12.9	474.3	(2.9)	793.8
Profit after tax	—	—	—	24.6	—	24.6
Other comprehensive income	—	—	—	2.1	—	2.1
Total comprehensive income	—	—	—	26.7	—	26.7
Ordinary shares issued	—	0.4	—	—	—	0.4
Share-based payments (net of settlement)	—	—	—	4.7	—	4.7
Dividends paid	—	—	—	(11.9)	—	(11.9)
Purchase of shares by employee share ownership plan trust	—	—	—	(7.1)	—	(7.1)
Transactions in own shares	—	—	—	(2.9)	2.9	—
At 31 October 2021	2.8	307.1	12.9	483.8	—	806.6

The auditor's remuneration for audit and other services is disclosed in note 4 to the Group financial statements.

A final dividend of 3.8p per ordinary share has been proposed. See note 8 to the Group financial statements.

As at 31 October 2022 the Company had distributable reserves of £422.0m (2021: £483.8m). When required, the Company can receive dividends from its subsidiaries to further increase distributable reserves.

Included within retained earnings is the Company's own shares held by the Group's Employee Share Ownership Plan Trust ("ESOP"); see note 25 of the Group financial statements for details.

1. PROPERTY, PLANT AND EQUIPMENT

Detailed disclosure of property, plant and equipment was not considered necessary due to its immaterial value. The Company had no capital commitments as at 31 October 2022 or 31 October 2021.

2. INVESTMENTS IN SUBSIDIARIES

	Shares in subsidiary undertakings £m
Cost	
At 31 October 2021	851.1
Additions	51.7
At 31 October 2022	**902.8**
Impairment	
At 31 October 2021	(64.5)
Impairment	(71.7)
At 31 October 2022	**(136.2)**
Carrying amount	
At 31 October 2022	**766.6**
At 31 October 2021	786.6

Investment values are allocated to their respective legal entities. Where the investment value relates to an intermediate holding company, the subsidiaries of that holding company are used to support the carrying value.

During the year ended 31 October 2022, the additions of £51.7m represent a capital contribution to CHG Overseas Limited.

During the year ended 31 October 2021, Chemring Group PLC acquired the Cubica Group for a cost of investment of £7.0m. See note 28 of the Group financial statements for further details. In addition, the Company increased its investments in Chemring Countermeasures Limited and CHG Overseas Limited by £30.0m and £115.0m respectively.

The Company tests investments at least annually for impairment. Tests are conducted more frequently if there are indications that investments might be impaired. The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions for the value-in-use calculations have been individually estimated for each CGU and are detailed in note 10 of the Group financial statements.

During the year ended 31 October 2022, the Company concluded that the carrying value relating to CHG Overseas Limited was higher than its recoverable amount and therefore an impairment charge of £71.7m was recorded. The recoverable amount for CHG Overseas Limited was calculated using discount rates that have been adjusted for a premium specific to each of the CGUs to account for differences in currency risk, country risk and other factors affecting specific CGUs, have been used to discount projected cash flows. These premiums range from 1% to 2% (2021: 1% to 3%). The calculations assume the performance of the CGUs will grow at a nominal annual rate of 2.25% (2021: 1.75%) in perpetuity.

Stress testing was performed on the forecasts to consider the impact of reasonably possible worst case scenarios over the forecast period, including a 1% reduction in long-term growth rate, a 10% fall in the forecast cash flows or a $0.10 weakening in the GBP to US dollar exchange rate. A 1% increase in discount rate is the most sensitive assumption and would result in an additional impairment of £94.8m in CHG Overseas Limited being required. A $0.10 weakening in the GBP to US dollar exchange rate is the least sensitive assumption and would result in an additional impairment of £37.1m in CHG Overseas Limited being required. In determining the value in use, we have allocated central costs necessary to generate the underlying cash flows however there is judgement in this allocation. Had we increased the allocation by 10%, this would have resulted in an additional impairment of £10.4m in CHG Overseas Limited being required.

Details of the Group undertakings at 31 October 2022 are set out in note 13 to the Group financial statements. The Company has given a parental guarantee under section 479A of the Companies Act 2006 to certain subsidiary undertakings, details of which are also set out in note 13 to the Group financial statements.

The directors consider that the carrying value of the investments does not exceed their fair value.

3. TRADE AND OTHER RECEIVABLES

	2022 £m	2021 £m
Within current assets		
Amounts owed by subsidiary undertakings	**19.7**	3.4
Derivative financial instruments (note 21 to the Group financial statements)	**0.7**	1.0
Prepayments and accrued income	**0.8**	0.7
Other debtor	**2.0**	—
	23.2	5.1
Within non-current assets		
Amounts owed by subsidiary undertakings	**10.7**	69.2
	10.7	69.2

The directors consider that the carrying value of the trade and other receivables approximates to their fair value.

Interest on amounts owed by subsidiary undertakings is charged between 0% and 8.5%. No interest is charged on trade and other receivables from the date of invoice to payment.

As at 31 October 2022, Chemring Group PLC loaned £2.0m to the Chemring Group Staff Pension Scheme to fund margin calls on liability driven investments, this is a related party transaction for further details refer to note 34. This short-term loan is included in Other debtors above and was repaid in November 2022.

4. TRADE AND OTHER PAYABLES

	2022 £m	2021 £m
Within current liabilities		
Derivative financial instruments (note 21 to the Group financial statements)	**4.1**	0.4
Trade payables	**0.5**	0.2
Amounts owed to subsidiary undertakings	**19.2**	2.0
Other payables	**6.8**	8.2
Other tax and social security	**—**	0.3
Accruals and deferred income	**0.1**	—
	30.7	11.1
Within non-current liabilities		
Derivative financial instruments (note 21)	**1.1**	—
	31.8	11.1

Other payables of £6.8m (2021: £8.2m) includes payroll related creditors of £4.4m (2021: £5.7m).

Interest on amounts owed to subsidiary undertakings attracts interest rates between 0% and 2%. No interest is payable on trade payables from the date of invoice to payment.

5. BORROWINGS

	2022 £m	2021 £m
Borrowings due after more than one year		
Bank borrowings – US dollar denominated	**20.9**	28.0
Bank borrowings – sterling denominated	**0.9**	14.5
Total borrowings	**21.8**	42.5

An analysis of borrowings by maturity is as follows:

	2022 £m	2021 £m
Borrowings falling due:		
– less than one year	**—**	—
– within one to two years	**—**	—
– within two to five years	**21.8**	42.5
	21.8	42.5

The interest incurred on the above borrowings is detailed within notes 6 and 17 to the Group financial statements. Sterling denominated borrowings relate to stand-alone Company bank overdraft which carries interest at 1.2%.

6. LEASES

The interest expense on lease liabilities is £nil (2021: £nil). In total, payments of £nil (2021: £0.1m) were made under leasing contracts, of which £nil (2021: £0.1m) was made to repay the principal portion of the lease. The total lease liability at 31 October 2022 was £nil (2021: £nil).

7. PROVISIONS

	Total £m
At 31 October 2021	7.1
Provided	1.6
Paid	(0.5)
At 31 October 2022	**8.2**

It is not possible to estimate more accurately the expected timing of any resulting outflows of economic benefits. Total provisions include legal provisions, which represent the estimated legal costs relating to ongoing investigations, and disposal provisions, which relate to estimated liabilities faced by the Company in respect of the disposal of its commoditised energetics businesses under the terms of their respective sale agreements. See note 22 to the Group financial statements for further details.

8. PREFERENCE SHARES

	2022 £m	2021 £m
Cumulative preference shares (62,500 shares of £1 each)	**0.1**	0.1

The cumulative preference shares carry an entitlement to a dividend at the rate of 7p per share per annum, payable in equal instalments on 30 April and 31 October each year. Holders of the preference shares have the right on a winding-up to receive, in priority to any other classes of shares, the sum of £1 per share together with any arrears of dividends.

9. SHARE CAPITAL

	2022 £m	2021 £m
Issued, allotted and fully paid		
283,541,742 (2021: 283,149,511) ordinary shares of 1p each	**2.8**	2.8

During the year, 392,231 ordinary shares (2021: 299,581) were issued for cash to employees under the Group's approved savings-related share schemes.

The preference shares are presented as a liability and accordingly are excluded from called-up share capital in the balance sheet.

SHARE-BASED INCENTIVE SCHEMES

Full details of the schemes are set out in note 27 to the Group financial statements.

10. OWN SHARES

	2022 £m	2021 £m
At the beginning of the year	—	2.9
Transactions	—	(2.9)
At the end of the year	**—**	—

The own shares reserve represents the cost of shares in the Company purchased in the market and held by the Group to satisfy awards under the Group's share-based incentive schemes (see note 27 to the Group financial statements). Nil ordinary shares (2021: nil) were acquired during the year and nil ordinary shares (2021: 675,592) were distributed following the vesting of awards under the PSP. The total number of ordinary shares held in treasury at 31 October 2022 was nil (2021: nil).

11. DEFERRED TAX

	2022 £m	2021 £m
At the beginning of the year	**(0.9)**	(0.8)
Credit to income statement	**1.2**	1.0
Credit/(charge) to other comprehensive income	**0.5**	(1.1)
Deferred tax asset/(liability) at the end of the year	**0.8**	(0.9)
The amount provided represents:		
Pension	**(2.0)**	(2.5)
Other temporary differences	**2.8**	1.6
	0.8	(0.9)

At the balance sheet date, the Company had unrecognised tax losses of £nil (2021: £nil) potentially available for offset against future profits in certain circumstances.

12. PENSIONS

The Company has assumed its share of the assets and liabilities of the Group's defined benefit pension scheme. An analysis of the surplus balance is shown below:

	Total £m
At 31 October 2020, retirement benefit surplus	4.1
Contributions	—
Other finance costs	(0.1)
Actuarial movements	3.2
At 31 October 2021, retirement benefit surplus	7.2
Contributions	—
Other finance costs	(0.1)
Actuarial movements	(1.3)
At 31 October 2022, retirement benefit surplus	**5.8**

Further details are set out in note 29 to the Group financial statements.

13. STAFF COSTS

	2022 Number	2021 Number
Average monthly number of total employees (including executive directors)	**34**	31

The costs incurred in respect of these employees (including share-based payments) were:

	2022 £m	2021 £m
Wages and salaries	**5.0**	6.5
Social security costs	**1.0**	0.9
Other pension costs	**0.6**	0.6
Share-based payment	**4.2**	2.9
	10.8	10.9

Disclosures in respect of directors' emoluments can be found in the directors' remuneration report on pages 96 to 119.

ACCOUNTING POLICIES

1. GENERAL INFORMATION
Chemring Group PLC is a company incorporated in England and Wales under registration number 86662. The address of the registered office is Roke Manor, Old Salisbury Lane, Romsey, Hampshire, SO51 0ZN. The nature of the Group's operations and its principal activities are set out in note 2 of the Group financial statements and in the directors' report on pages 120 to 122. These financial statements are the consolidated financial statements of Chemring Group PLC and its subsidiaries (the "Group").

Chemring Group PLC and the companies in which it directly and indirectly owns investments are separate and distinct entities. In this publication of the annual report and accounts, the collective expressions "Chemring" and "the Group" may be used for convenience where reference is made in general to those companies. Likewise, the words "we", "us", "our" and "ourselves" are used in some places to refer to the subsidiaries of the Group in general. These expressions are also used where no useful purpose is served by identifying any particular company or companies.

The financial statements are presented in pounds sterling, being the currency of the primary economic environment in which the Group operates, and rounded to the nearest £0.1m. Foreign operations are included in accordance with the foreign currencies accounting policy.

GOING CONCERN
The directors have, at the time of approving the financial statements, a reasonable expectation that the Group and the Company have adequate resources to continue to adopt the going concern basis of accounting in preparing these financial statements. Further detail is contained in the statement on going concern on page 74 which forms part of these financial statements.

2. ADOPTION OF NEW AND REVISED STANDARDS
The following standards, amendments and interpretations have been issued by the International Accounting Standards Board ("IASB") or by the IFRS Interpretations Committee. The Group's approach to these is as follows:

i) There were no IFRS Interpretations Committee ("IFRIC") interpretations, amendments to existing standards and new standards adopted in the year ended 31 October 2022 that have materially impacted the reported results or the financial position.

ii) The following IFRIC interpretations, amendments to existing standards and new standards were adopted in the year ended 31 October 2022 but have not materially impacted the reported results or the financial position:

> Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16 *Leases*); and

> Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).

iii) At the date of authorisation of this announcement, the following standards and interpretations that are potentially relevant to the Group and which have not yet been applied in these reported results were in issue but not yet effective (and in some cases had not yet been adopted by the UK Endorsement Board):

EFFECTIVE FOR PERIODS BEGINNING ON OR AFTER 1 JANUARY 2022
> Reference to the Conceptual Framework (Amendments to IFRS 3);

> Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16);

> Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37); and

> Annual Improvements to IFRS Standards 2018–2020.

EFFECTIVE FOR PERIODS BEGINNING ON OR AFTER 1 JANUARY 2023
> IFRS 17 *Insurance Contracts*;

> Classification of Liabilities as Current or Non-Current (Amendments to IAS 1);

> 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).

The directors do not expect the adoption of these standards and interpretations will have a material impact on the results of the Group in future periods.

3. GROUP ACCOUNTING POLICIES
BASIS OF PREPARATION
These financial statements have been prepared in accordance with UK-adopted international accounting standards ("UK-adopted IFRS") in conformity with the requirements of the Companies Act 2006.

The financial statements are prepared under the historical cost convention, except as described below under the heading of "Derivative financial instruments".

The accounting policies adopted have been applied consistently throughout the current and previous year.

BASIS OF CONSOLIDATION
The Group financial statements consolidate those of the Company and all of its subsidiaries. Subsidiaries are entities controlled by the Group. The Group "controls" an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The Company considers that it has the power to govern the financial and operating policies of the US entities falling within the Special Security Agreement and these entities have therefore been consolidated in these financial statements.

The Company and all of its subsidiaries make up their financial statements to the same date. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interest
The Group recognises non-controlling interest in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For non-controlling interests that the Group holds, the Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

Q6 Holdings Limited, a wholly owned subsidiary of Chemring Group PLC, owns 80% of the issued shares of Vigil AI Limited. Disclosure of the minority interest on the face of the primary statements has not been included as this is considered immaterial to the Group. As at 31 October 2022, profit, total comprehensive income and equity attributable to minority interests were less than £0.1m.

3. GROUP ACCOUNTING POLICIES continued

REVENUE RECOGNITION

Chemring is organised into two sectors, Sensors & Information and Countermeasures & Energetics.

From a revenue recognition perspective, whilst Chemring operates across the whole lifecycle of its products and services, these are generally awarded by its customers as individual contracts for the different stages rather than being large, complex, long-term framework agreements requiring extensive consideration of price allocation and performance obligations. As a result we are less susceptible to judgements over revenue recognition regarding contract performance, modifications and cancellations.

Whilst as a Group we aim to develop products which can be sold on to multiple end users and markets, in some instances the nature of products and services are unique to a customer and may not have an alternative use at the point of production. In such cases, where an enforceable right to payment exists, revenue will be recognised over time.

From time to time we enter into contracts for "customer-funded R&D" where Chemring provides a service towards the development of a technology for a customer resulting in revenue. In certain instances, Chemring partly funds the development effort and these can result in the recognition of a controlled asset.

Contracts

The majority of the Group's revenue arises from the manufacture and shipment of goods.

Sales contracts are reviewed for performance obligations but the principal driver for timing of revenue recognition is delivery obligations, typically based on Incoterms. Certain contracts may also require customer acceptance testing. Once the relevant delivery obligation has been met and, as applicable, customer acceptance received, revenue can be recognised.

The timing of payment from customers is generally aligned to revenue recognition, though on certain contracts advance receipts are received as disclosed in note 19. This also applies to sales where there are no goods shipped but a deliverable is completed at a certain point in time, such as the issue of a report where there is no enforceable right to payment for work in progress.

In a smaller number of cases, revenue also arises from milestone contracts that contain multiple performance obligations. Often these contracts are already divided into milestones for payment purposes, but judgement is required when assessing the way the contract is divided up to ensure that each element is a separate and valid performance obligation. If they are not, the relevant revenue amount is allocated across the other obligations as appropriate. In some cases milestones are achieved in one period but not billed until the next period, leading to a timing difference with the recognition of revenue in advance of customer billing. In this instance accrued income is recognised as described in note 15. There are no contracts with a significant financing component.

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. This is based on the agreed contract price, with no material claims and incentive payment terms, and therefore significant judgement to determine the transaction price is not required. Typically our contracts do not have any material variable consideration and no significant judgement has been required around the extent to which this ought to be recognised. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices, where stand-alone selling prices are typically estimated based on expected costs plus contract margin.

The Group provides warranties to its customers to give them assurance that its products and services will function in line with agreed-upon specifications. Warranties are not provided separately and, therefore, do not represent separate performance obligations.

A number of sales contracts allow for bill and hold arrangements, where the customer has bought the goods but has not yet taken physical possession. This usually arises when the customer has limited storage space or there have been delays in their own production schedule. For such revenue to be recognised the bill and hold arrangement must be substantive and the relevant goods must be clearly identified as belonging to the customer and ready for immediate shipment at the customer's request. These categories of sales are common across all segments.

Qualifying costs to obtain a contract are not material across the Group.

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Group has identified a sales contract with a customer;
- the performance obligations within this contract have been identified;
- the transaction price has been determined;
- this transaction price has been allocated to the performance obligations in the contract; and
- revenue is recognised as or when each performance obligation is satisfied.

Performance obligations are satisfied when the customer gains control of promised goods or services from the contract. Customers do not typically gain a right of return of goods.

Rendering of services

Revenue from a contract to provide services, including customer-funded research and development, is recognised by reference to the stage of completion of the contract. Stage of completion is typically estimated by either the proportion of contract costs incurred for work performed to date or completion of relevant milestones where this faithfully depicts the transfer of control of the goods and services to the customer and does not significantly differ from using the proportion of contract costs incurred basis.

Another significant source of Group revenue, especially within the Sensors & Information segment, arises from time and materials contracts, where revenue is typically accrued and billed in the following month based on work performed to date, following which payment is typically promptly received.

Principal versus agent assessment

The Group enters into certain arrangements which involve a consortium of service providers. The Group acts as a "Prime" contractor in certain contracts with customers and utilises sub-contractors to undertake the work. Under these contracts the Group is considered to be primarily responsible for fulfilling the service to the customer. The Group performs a technical assessment of the work before it is delivered to the customer and is responsible for quality and performance of the sub-contractor. As such the Group is considered to be the principal to the arrangement with the customer and includes sub-contractor costs within revenue. However, where the Group is merely acting as an agent of a sub-contractor then no revenue is recognised in respect of sub-contractor costs.

All consortium arrangements are assessed by the Group to determine if it is the principal or agent considering who is responsible for fulfilling the performance obligation, who bears inventory risk and who has price discretion.

3. GROUP ACCOUNTING POLICIES continued

ACQUISITIONS AND DISPOSALS

On acquisition of a subsidiary, associate or jointly controlled entity, the cost is measured as the fair value of the consideration. The assets, liabilities and contingent liabilities of subsidiary undertakings that meet the IFRS 3 (Revised) *Business Combinations* recognition criteria are measured at the fair value at the date of acquisition, except that:

- deferred tax assets or liabilities, and liabilities or assets relating to employee benefit arrangements, are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 (Revised) *Employee Benefits* respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 *Share-based Payments*; and
- assets (or disposal groups) that are classified as held for sale, in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, are measured in accordance with that standard.

Where cost exceeds fair value of the net assets acquired, the difference is recorded as goodwill.

Where the fair value of the net assets exceeds the cost, the difference is recorded directly in the income statement. The accounting policies of subsidiary undertakings are changed where necessary to be consistent with those of the Group.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities recognised, to reflect new information obtained about facts and circumstances that existed as at the acquisition date that, if known, would have affected the amounts recognised as at that date.

The measurement period runs from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as at the acquisition date, subject to a maximum period of one year.

In accordance with IFRS 3 (Revised) *Business Combinations*, acquisition and disposal-related items are recognised through the income statement. Acquisition and disposal-related items refer to credits and costs associated with the acquisition and disposal of businesses, together with the costs of aborted bids and the establishment of joint ventures.

DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

When the Group makes a decision to exit a significant business unit or separate major line of business, the associated operations and cash flows are classified as discontinued operations in the financial statements, in accordance with the provisions of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

These discontinued operations may represent components of the Group that have already been disposed of or are classified as held for sale.

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sales transaction rather than continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify as a completed sale within one year from the date of classification.

INTANGIBLE ASSETS – GOODWILL

The purchased goodwill of the Group is regarded as having an indefinite useful economic life and, in accordance with IAS 36 *Impairment of Assets*, is not amortised but is subject to annual tests for impairment. On disposal of a subsidiary, associate or jointly controlled entity, the amount attributable to goodwill is included in the determination of the profit or loss on disposal.

ACQUIRED INTANGIBLES

The Group recognises, separately from goodwill, intangible assets that are separable or arise from contractual or other legal rights and whose fair value can be measured reliably. These intangible assets are amortised at rates calculated to write down their cost or valuation to their estimated residual values by equal instalments over their estimated useful economic lives, which are:

- technology – average of ten years
- customer relationships – average of ten years

DEVELOPMENT COSTS

Development costs that qualify as intangible assets are capitalised as incurred and, once the relevant intangible asset is ready for use, are amortised on a straight-line basis over their estimated useful lives, averaging ten years (2021: ten years).

The carrying value of development assets is assessed for recoverability at least annually or when a trigger is identified.

PATENTS AND LICENCES

Patents and licences are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives, averaging seven years (2021: seven years).

PROPERTY, PLANT AND EQUIPMENT

Other than historically revalued land and buildings, property, plant and equipment is held at cost less accumulated depreciation and any recognised impairment loss. Borrowing costs on significant capital expenditure projects are capitalised and allocated to the cost of the project.

No depreciation is provided on freehold land. On other assets, depreciation is provided at rates calculated to write down their cost or valuation to their estimated residual values by equal instalments over their estimated useful economic lives, which are:

- freehold buildings – up to fifty years
- leasehold buildings – the period of the lease
- plant and equipment – up to ten years

IMPAIRMENT OF NON-CURRENT ASSETS

Assets that have indefinite lives are allocated to the Group's cash-generating units and tested for impairment at least annually. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever changes in circumstances indicate that the carrying value may not be recoverable. To the extent that the carrying value exceeds the recoverable amount, an impairment loss is recorded for the difference as an expense in the income statement. The recoverable amount used for impairment testing is the higher of the value-in-use and the asset's fair value less costs of disposal. For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

INVENTORIES

Inventories are recorded at the lower of cost and net realisable value. Cost represents materials, direct labour, other direct costs and related overheads, and is determined using a weighted average cost basis. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

Provision is made for slow-moving, obsolete and defective items where appropriate.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are ready for their intended use. Once the assets are ready for their intended use, these capitalised borrowing costs are depreciated in line with the underlying asset.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

3. GROUP ACCOUNTING POLICIES continued

GOVERNMENT GRANTS

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants for staff retraining costs are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Government grants relating to property, plant and equipment are treated as deferred income and released to the income statement over the expected useful economic lives of the assets concerned.

TAX

The tax expense represents the sum of current tax and deferred tax.

Current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it excludes items of income or expense that are never taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax represents amounts expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable taxable profits will be available in the future against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxed by the same tax authority, and when the Group intends to settle its current tax assets and liabilities on a net basis.

SPECIAL CAPITAL RESERVE

The special capital reserve was created as part of a capital reduction scheme involving the cancellation of the share premium account which was approved by the Court in 1986, in accordance with the requirements of the Companies Act 1985.

FOREIGN CURRENCIES

The individual financial statements of each Group company are presented in its functional currency, being the currency of the primary economic environment in which it operates. For the purpose of these Group financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for these financial statements.

In preparing the financial statements of each Group company, transactions in foreign currencies, being currencies other than the entity's functional currency, are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are included in the income statement for the period.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward foreign exchange contracts which are accounted for as derivative financial instruments (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

For the purpose of presenting these financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

FINANCIAL ASSETS

Trade receivables

Trade receivables do not carry any interest and are stated at their fair value and amortised cost as reduced by appropriate allowances for expected credit losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

FINANCIAL LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

Financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, and direct issue costs are accounted for on an accruals basis in the income statement using the effective interest method, and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

3. GROUP ACCOUNTING POLICIES continued

FINANCIAL LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS continued

Trade payables

Trade payables are not interest bearing and are stated at their fair value and amortised cost.

Derivative financial instruments

The Group's activities expose it to the financial risks of foreign currency transactions, and it uses forward foreign exchange contracts to hedge its exposure to these transactional risks. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are recognised at fair value on the date the derivative contract is entered into and are revalued to fair value at each balance sheet date. The fair values of derivative financial instruments are calculated by external valuers.

The Group does not apply hedge accounting for derivative financial instruments, with changes in the fair value of derivatives being recognised in the income statement immediately.

Hedges of net investments in foreign operations

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the statement of comprehensive income and accumulated in the translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

RETIREMENT BENEFIT COSTS

Payments to defined contribution retirement benefit schemes are charged as an administrative expense in the period to which they relate. For defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Remeasurement of the defined benefit pension scheme, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised in the statement of comprehensive income in full in the period in which they occur.

The Group determines the net interest income on the net defined benefit asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit asset, taking into account any changes in the net defined benefit asset during the year as a result of contributions and benefit payments. Net interest income and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

LEASED ASSETS

At the lease commencement date (i.e. the date the underlying asset is available for use), the Group recognises a right-of-use asset and a lease liability on the balance sheet.

The lease liability is initially measured at the present value of future lease payments, discounted using the Group's incremental borrowing rate. The right-of-use asset is initially measured at cost, comprising the initial value of the lease liability, any lease payments made before commencement of the lease, any initial direct costs and any restoration costs. The asset is recorded as property, plant and equipment, and is depreciated over the shorter of its estimated useful economic life and the lease term on a straight-line basis.

The finance cost is charged to the income statement over the lease term to produce a constant periodic rate of interest on the lease liability. The lease payment is allocated between repayment of the lease liability and finance cost.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in the income statement on a straight-line basis over the lease term.

SHARE-BASED COMPENSATION

The Group operates equity-settled share-based compensation schemes.

For grants made under the Group's share-based compensation schemes, the fair value of an award is measured at the date of grant and reflects any market-based vesting conditions. Non-market-based vesting conditions are excluded from the fair value of the award. At the date of grant, the Company estimates the number of awards expected to vest as a result of non-market-based vesting conditions, and the fair value of this estimated number of awards is recognised as an expense in the income statement on a straight-line basis over the vesting period. At each balance sheet date, the impact of any revision to vesting estimates is recognised in the income statement over the vesting period. Proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium.

PROVISIONS

Provisions are recognised when the Group has a present obligation, either legal or constructive, as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the estimated cash flows to settle the present obligation, its carrying amount is the present value of those cash flows. The Group uses the "expected value" or "most likely outcome" method on a case-by-case bases to estimate the value of provisions.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Environmental provisions

Where the Group is liable for decontamination work or the restoration of sites to their original condition, an estimate is made of the costs needed to complete these works, discounted back to present values, relying upon independent third party valuers where appropriate.

Restructuring provisions

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring and not those associated with the ongoing activities of the entity.

Warranty provisions

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, based upon the best estimate of the expenditure required to settle the Group's obligations.

Disposal provisions

Disposal provisions relate to estimated liabilities faced by the Group in respect of discontinued operations and other disposed entities under the terms of their respective sale agreements.

3. GROUP ACCOUNTING POLICIES continued

CONTINGENT LIABILITIES

The Group exercises judgement in recognising exposures to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement may be necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and/or to quantify the possible range of the financial settlement.

ALTERNATIVE PERFORMANCE MEASURES

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 metrics are presented which are also considered 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 assists 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 considers non-underlying items to be:

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

The Group's use of APMs is consistent and we provide comparatives alongside all current period figures.

Further detail on the APMs presented within these financial statements, including a reconciliation to the IFRS equivalent, is presented in note 3.

EXCEPTIONAL ITEMS

Exceptional items are excluded from management's assessment of profit because by their size or nature they need to be separately disclosed to properly understand the Group's underlying quality of earnings. They are typically gains or losses arising from events that are not considered part of the core operations of the business. These items are excluded to reflect performance in a consistent manner and are in line with how the business is managed and measured on a day-to-day basis.

POST-BALANCE SHEET EVENTS

In accordance with IAS 10 *Events after the Reporting Period*, the Group continues to disclose events that it considers material, non-disclosure of which can influence the economic decisions of users of the financial statements.

4. CHEMRING GROUP PLC – PARENT COMPANY ACCOUNTING POLICIES

FRS 101 *REDUCED DISCLOSURE FRAMEWORK*

The financial statements have been prepared in accordance with UK accounting standards and applicable law, including FRS 101 *Reduced Disclosure Framework*.

The Company operates a defined benefit scheme including employees of other Group companies (a Group plan). Following FRS 101, the scheme assets and liabilities have been allocated across the Group companies using a method that management considers to be the most appropriate, based on scheme membership, in accordance with the Group's internal policy.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- share-based payments;
- financial instruments;
- fair value measurements;
- IFRS 16 *Leases* (paragraphs 52 and 58);
- presentation of comparative information in respect of certain assets;
- IFRSs issued but not yet effective;
- related party transactions;
- assumptions and sensitivities for impairment review; and
- cash flow.

Investment in Group undertakings

Investments are stated at cost less any provision for impairment in value.

Critical accounting judgements and sources of estimation uncertainty

There are no critical accounting judgements for the Company. The other non-significant areas that include a degree of estimation uncertainty are below.

Investments in subsidiaries impairment

Determining whether investments in subsidiaries are impaired requires an estimation of the value-in-use of the legal entities to which the investments relate. Where the investment value relates to an intermediate holding company, the subsidiaries of that holding company are used to support the carrying value. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the legal entity, and to determine a suitable discount rate in order to calculate present value (see note 10). In reviewing the carrying value of investments in subsidiaries, the Board has considered the separate plans and cash flows of these businesses consistent with the requirements of IAS 36 *Impairment of Assets*. The plans and cash flows of these businesses reflect current and anticipated conditions in the defence industry. The total investments in subsidiaries is set out in note 2 of the parent company financial statements, which shows a carrying value of £766.6m at 31 October 2022.

5. ACCOUNTING JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

When applying the Group's accounting policies, management must make judgements, assumptions and estimates concerning the future that affect the carrying amounts of assets and liabilities at the balance sheet date and the amounts of revenue and expenses recognised during the period. Such judgements, assumptions and estimates are based upon factors including historical experience, the observance of trends in the industries in which the Group operates, and information available from the Group's customers and other external sources.

ACCOUNTING JUDGEMENTS

Revenue recognition

Following IFRS 15 *Revenue from Contracts with Customers*, the Group recognises revenue on the basis of the satisfaction of performance obligations.

Management has to consider whether performance obligations should be recognised at a single point in time, which is generally the case for the sale of products by the Group, or over a period of time, which is more common for certain service contracts.

In making its judgement about obligations that are satisfied at a point in time, management has to consider at what point control has passed to the customer, allowing revenue to be recognised. This is typically determined through a consideration of customer acceptance testing, stage of completion, contract terms and delivery arrangements.

KEY SOURCES OF ESTIMATION UNCERTAINTY

There are no key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5. ACCOUNTING JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY continued

OTHER NON-SIGNIFICANT AREAS THAT INCLUDE A DEGREE OF ESTIMATION UNCERTAINTY OR JUDGEMENTS

While these areas do not present a significant risk resulting in a material adjustment, they are areas of focus for management and include:

Provisions

The Group holds provisions where appropriate in respect of future economic outflows which arise due to past events. These are subject to uncertainty in respect of the outcome of future events. Estimates, judgements and assumptions are based on factors including historical experience, the observance of trends in the industries in which the Group operates, and information available from the Group's customers and other external sources. Actual outflows of economic benefit may not occur as anticipated, and estimates may prove to be incorrect, leading to further charges or releases of provisions as circumstances change. The provisions held by the Group as at 31 October 2022 are set out in note 22.

Goodwill impairment

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit, and to determine a suitable discount rate in order to calculate present value (see note 10). In reviewing the carrying value of goodwill of the Group's businesses, the Board has considered the separate plans and cash flows of these businesses consistent with the requirements of IAS 36 *Impairment of Assets*. The plans and cash flows of these businesses reflect current and anticipated conditions in the defence industry. The total goodwill intangible asset is set out in note 10, which shows a carrying value of £118.1m at 31 October 2022.

Capitalised development costs impairment

IAS 38 *Intangible Assets* requires that development costs, arising from the application of research findings or other technical knowledge to a plan or design of a new substantially improved product, are capitalised, subject to certain criteria being met. Determining the future cash flows generated by the products in development requires estimates which may differ from the actual outcome. In particular, this can depend on the estimation applied to future milestone events to secure long-term positions on production contracts, for example Programs of Record for the US DoD. The total capitalised development intangible asset is set out in note 11, which shows a carrying value of £34.6m at 31 October 2022. Included in this balance are individually material balances relating to Joint Biological Tactical Detection System (£9.7m), Next Generation Chemical Detector (£16.5m) and Perceive (£5.6m).

Taxation

The Group operates in a number of countries around the world. Uncertainties exist in relation to the interpretation of complex tax legislation, changes in tax laws and the amount and timing of future taxable income. In some jurisdictions agreeing tax liabilities with local tax authorities can take several years. This could necessitate future adjustments to taxable income and expense already recorded. At the year-end date, tax liabilities and assets are based on management's best judgements around the application of the tax regulations and management's estimate of the future amounts that will be settled.

The Group's operating model involves the cross-border supply of goods into end markets. There is a risk that different tax authorities could seek to assess higher profits (or lower costs) to activities being undertaken in their jurisdiction, potentially leading to higher total tax payable by the Group.

At 31 October 2022 there was a provision of £3.5m in respect of uncertain tax positions. Due to the uncertainties noted above, there is a risk that the Group's judgements are challenged, resulting in a different tax payable or recoverable from the amounts provided. Management estimates that the reasonably possible range of outcomes is between £nil and £3.5m.

Deferred tax assets on tax losses and US interest deductions

The category of deferred tax asset which contains significant estimation uncertainty and which requires management judgement in assessing its recoverability relates to US interest limitations and tax losses carried forward (see note 23).

Applicable accounting standards permit the recognition of deferred tax assets only to the extent that it is probable that future taxable profits will be available, or to the extent that the existing taxable temporary differences, of an appropriate type, reverse in an appropriate period to utilise the tax losses carried forward. The assessment of future taxable profits involves significant estimation uncertainty, principally relating to an assessment of management's projections of future taxable income based on business plans and ongoing tax planning strategies. These projections include assumptions about the future strategy of the Group, the economic and regulatory environment in which the Group operates, future tax legislation and customer behaviour, amongst other variables.

Defined benefit pension scheme

Estimation is required in the determination of the discount rate and inflation assumptions underpinning the valuation of the liabilities of the Group's defined benefit pension scheme. There is a range of possible values for each of the actuarial assumptions and small changes in assumptions may have a significant impact on the size of the deficit. Note 29 provides information on the key assumptions and analysis of their sensitivities.

CLIMATE CHANGE

In preparing the financial statements, we have considered the impact of climate change. As our climate risks (discussed earlier in the annual report) identified predominantly manifest in business interruption, the main areas effected from a financial perspective have been our impairment and going concern and viability assessments where we have ensured that these potential risks have been appropriately considered in forecast cash flows used.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHEMRING GROUP PLC

1 OUR OPINION IS UNMODIFIED

We have audited the financial statements of Chemring Group PLC ("the Company") for the year ended 31 October 2022 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated balance sheet, consolidated cash flow statement, parent company balance sheet, parent company statement of comprehensive income, parent company statement of changes in equity, and the related notes, including the accounting policies in notes 3 and 4.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 October 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 23 March 2018. The period of total uninterrupted engagement is for the five financial years ended 31 October 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	£3.0m (2021: £2.75m) 4.8% (2021: 4.9%) of normalised profit before tax, normalised to exclude this year's non-underlying items
Coverage	85% (2021: 85%) of total profits and losses that made up Group profit before tax including continuing operations only

Key audit matters		vs 2021
Recurring risks	Recoverability of parent company's investments in subsidiaries	◀▶
New	Recoverability of goodwill	▲

2 KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and our findings from those procedures in order that the parent Company's members, as a body, may better understand the process by which we arrived at our audit opinion. These matters were addressed, and our findings are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

RECOVERABILITY OF GOODWILL

(Goodwill: £118.1m; 2021: £108.7m)

Refer to page 91 (Audit Committee report), page 161 (accounting policy) and pages 133 and 134 (financial disclosures).

THE RISK

Forecast based assessment

A history of business combinations results in significant Group goodwill. We determined that the forecast future cash flows used in calculating the value in use of each CGU involves a degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The estimated recoverable amount of the Group is subjective due to inherent uncertainty involved in forecasting and discounting future cash flows for CGUs.

Our response

We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described below:

- Extrapolating past forecasting accuracy: We assessed three years' historical accuracy of the cash flows, forecasting and building comparable variations in forecasting accuracy into our own models that were built to re-perform the valuation;
- Our sector experience: We evaluated assumptions used, in particular those relating to operating cash flow forecasts when compared with our business understanding;
- Benchmarking assumptions: We benchmarked discount rates (including the underlying assumptions used) against market data, including publicly available analysts' reports and peer comparison using input from our own valuation experts;
- Sensitivity analysis: We performed sensitivity analysis by reviewing the impact of reasonable downward changes to the assumptions noted above;
- Comparing valuations: We compared the sum of the discounted cash flows to the aggregate of the Group's market capitalisation and the fair value of the net debt to assess the reasonableness of those cash flows; and
- Assessing transparency: We assessed whether the Group's disclosures about the estimation uncertainty related to the impairment assessment reflect the risks inherent in the valuation of goodwill.

Our findings

We found the Group's conclusion that there is no impairment of Group goodwill to be balanced.

2 KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT continued

RECOVERABILITY OF PARENT COMPANY'S INVESTMENTS IN SUBSIDIARIES

(Investments in subsidiaries: £766.6m; 2021: £786.6m)

Refer to page 91 (Audit Committee report), page 164 (accounting policy) and page 155 (financial disclosures).

THE RISK

Forecast based assessment

The carrying amount of the parent Company's investments in subsidiaries are significant and at risk of irrecoverability due to changes in product demand and forecast cash flows. The estimated recoverable amount of these balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.

The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of the cost of investment in subsidiaries has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. Note 2 to the parent Company financial statements disclose the sensitivity estimated by the parent Company.

Our response

We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures as described below:

- Extrapolating past forecasting accuracy: We assessed three years' historical accuracy of the cash flows, forecasting and building comparable variations in forecasting accuracy into our own models that were built to re-perform the valuation;
- Our sector experience: We evaluated assumptions used, in particular those relating to operating cash flow forecasts when compared with our business understanding;
- Benchmarking assumptions: We benchmarked discount rates (including the underlying assumptions used) against market data, including publicly available analysts' reports and peer comparison using input from our own valuation specialists;
- Sensitivity analysis: We performed sensitivity analysis by reviewing the impact of reasonable downward changes to the assumptions noted above;
- Comparing valuations: We compared the carrying amount of the investments with the expected value of the business based on the Group's market capitalisation and the fair value of the net debt; and
- Assessing transparency: We assessed whether the parent Company's disclosures about the estimation uncertainty related to the impairment assessment reflect the risks inherent in the recoverability of the parent Company's investments in subsidiaries.

Our findings

We found the balance of the parent Company's investments in subsidiaries and the related impairment charge to be balanced (2021:found the Company's conclusion that there is no impairment of its investments in subsidiaries to be balanced).

We continue to perform procedures over revenue recognition from provision of services over time. However, following our risk assessment procedures in the current year, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

3 OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality for the Group financial statements as a whole was set at £3.0m (2021: £2.75m), determined with reference to a benchmark of normalised Group profit before tax, normalised to exclude non-underlying items as disclosed in note 3 to the group financial statements, of which it represents 4.8% (2021: 4.9%).

Materiality for the parent Company financial statements as a whole was set at £1.5m (2021: £1.0m) determined with reference to a benchmark of parent Company total assets, of which it represents 0.2% (2021: 0.1%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold of performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2021: 74.5%) of materiality for the financial statements as a whole, which equates to £2.25m (2021: £2.05m) for the Group and £1.13m (2021: £0.75m) for the parent Company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £150k (2021: £135k), in addition to other identified misstatements that warranted reporting on qualitative grounds. We agreed on a higher threshold of £300k (2021: £270k) for matters only related to reclassification.

Of the Group's fourteen reporting components, we subjected seven (2021: nine) to full scope audits for Group purposes, and one (2021: one) to specified risk-focused audit procedures. The latter was not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed. We conducted reviews of financial information (including enquiry) at a further three (2021: one) non-significant components in order to provide further coverage over the Group's results.

3 OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT continued

The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 13% (2021: 8%) of total Group revenue, 15% (2021: 15%) of total profits and losses that made up Group profit before tax and 11% (2021: 11%) of total Group assets is represented by three components. None of these three components individually represented more than 8% (2021: 8%) of any of total Group revenue, total profits and losses that made up Group profit before tax or total Group assets. For these residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £0.9m to £1.8m (2021: £0.05m to £1.7m), having regard to the mix of size and risk profile of the Group across the components. The work on 6 of the 14 (2021: 8 of the 13) components was performed by component auditors and the rest, including the audit of the parent Company, was performed by the Group team. The Group team performed procedures on the items excluded from normalised Group profit before tax.

The Group team visited 4 (2021: 4) component locations in the UK and US (2021: in the UK), to assess the audit risk and strategy. Video and telephone conference meetings were also held with these component auditors and all others that were not physically visited. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

We were able to rely upon the Group's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in the other areas the scope of the audit work performed was fully substantive.

4 THE IMPACT OF CLIMATE CHANGE ON OUR AUDIT

In planning our audit, we considered the potential impacts of climate change on the Group's business and its financial statements, based on our knowledge of the Group's operations and their stated strategy with respect to climate change.

THE CONTEXT OF CLIMATE CHANGE FOR THE GROUP

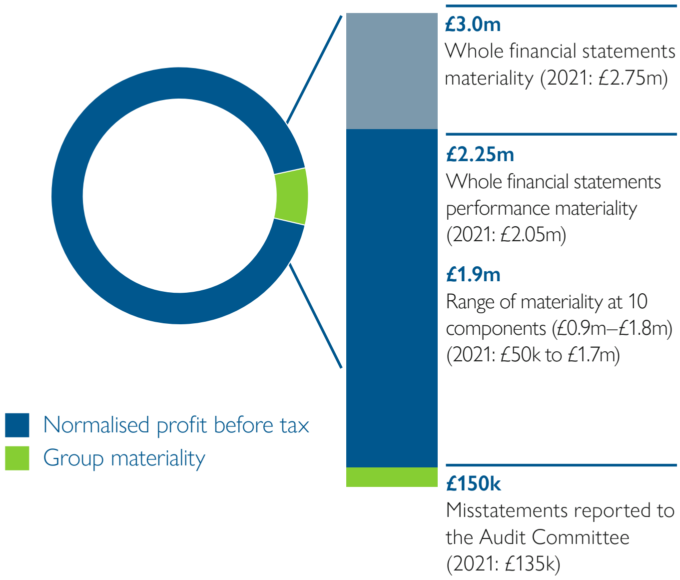
Climate change impacts the Group in a variety of ways including the impact of climate risk on manufacturing and procurement, potential reputational risk associated with the Group's delivery of its climate related initiatives, and greater emphasis on climate related narrative and disclosure in the annual report.

The Group's exposure to climate change is primarily through the acquisition of materials in its supply chain and increased costs in relation to manufacturing end products. As part of our audit we have made enquiries of management to understand the extent of the potential impact of climate change risk on the Group's financial statements and the Group's preparedness for this.

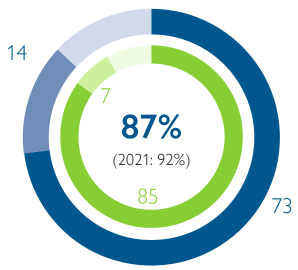
The Group emits greenhouse gases directly from energy used in its production operations. As explained on page 42 of the Group's annual report, the Group announced updated targets to reduce scope 1 and 2 carbon emissions to become carbon neutral by 2030 and then working towards being a net zero organisation by 2050.

NORMALISED PROFIT BEFORE TAX
£62.5m (2021: £55.9m)

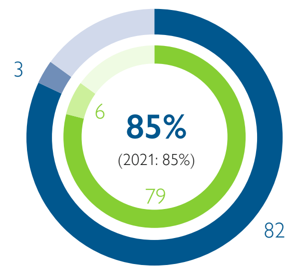
GROUP MATERIALITY
£3.0m (2021: £2.75m)



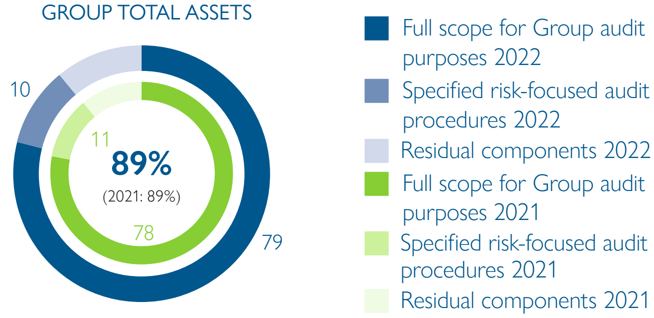
GROUP REVENUE



TOTAL PROFITS AND LOSSES THAT MADE UP GROUP PROFIT BEFORE TAX



GROUP TOTAL ASSETS



4 THE IMPACT OF CLIMATE CHANGE ON OUR AUDIT continued

THE GROUP'S ASSESSMENT OF ACCOUNTING CONSEQUENCES

IFRS requires the Group's financial reporting to be based, amongst other things, on the Group's best estimate of assumptions that are reasonable and supportable as at the date of reporting. Those assumptions may not align with the ways in which the global economy, society and government policies will need to change to meet the relevant targets.

The Group has set carbon emission targets and estimated the incremental capital and operational expenditure required to deliver those targets. The Group has considered the potential for asset obsolescence or shorter economic lives of its existing property, plant and equipment, and this does not result in any material changes to accounting estimates as a result.

The Group has provided more detail on how they have considered climate change in their financial reporting on page 165 of the Group's financial statements.

OUR AUDIT RESPONSE

Risk assessment procedures

As part of our risk assessment procedures, we made enquiries, with the assistance of our sustainability specialists, of key members of management. Our enquiries focused on understanding the Group's climate related strategy and identifying those areas where climate change could have a potential material impact on the financial statements. We did not identify the impact of climate risk as a separate Key Audit Matter in our audit given the nature of the Group's operations and knowledge gained of its impact on significant accounting estimates and judgements during our risk assessment procedures and testing.

Audit procedures in relation to Key Audit Matters

We did not consider the impact of climate change to be significant to our audit response for the Key Audit Matters relating to recoverability of goodwill and the parent Company's investments in subsidiaries.

Other audit procedures

During the course of our audit, we carried out the following additional audit procedures:

- we considered the Group's processes around climate change related disclosures in the Annual Report and read the disclosures in the Strategic Report and Directors' Report and considered its consistency with the financial statements and our audit knowledge; and
- we assessed the appropriateness of climate-related financial disclosures, including TCFD recommended disclosures.

The audit procedures were performed principally by the Group engagement team with the support of our sustainability specialists.

5 GOING CONCERN

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the parent Company or to cease their operations, and as they have concluded that the Group's and the parent Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and parent Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and parent Company's available financial resources, EBITDA and net debt, and therefore covenants over this period were:

- delays to significant revenue contracts;
- manufacturing facilities safety incidents; and
- the potential outcome of the provisions and contingent liabilities related to regulatory investigations.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

We also assessed completeness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or parent Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the directors' statement in note 1 to the accounting policies note on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and parent Company's use of that basis for the going concern period, and we found the going concern disclosure in note 1 to the accounting policies notes to be acceptable; and
- the related statement under the Listing Rules set out on page 74 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the parent Company will continue in operation.

6 FRAUD AND BREACHES OF LAWS AND REGULATIONS – ABILITY TO DETECT

IDENTIFYING AND RESPONDING TO RISKS OF MATERIAL MISSTATEMENT DUE TO FRAUD

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board, Audit Committee, Executive Committee, Remuneration Committee and Risk Committee meeting minutes;
- Considering remuneration incentive schemes and performance targets for management and directors including the EPS target for management remuneration;
- Using analytical procedures to identify any unusual or unexpected relationships; and
- Using our own forensic specialists to assist us in identifying fraud risks based on discussions of the circumstances of the Group and parent Company.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group audit team to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group level.

6 FRAUD AND BREACHES OF LAWS AND REGULATIONS – ABILITY TO DETECT continued

IDENTIFYING AND RESPONDING TO RISKS OF MATERIAL MISSTATEMENT DUE TO FRAUD continued

As required by auditing standards and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of control, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as provisions and pension assumptions. On this audit, we do not believe there is a fraud risk related to revenue recognition because there are no complexities or significant areas of estimation within the revenue recognition.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts; and
- Assessing whether the judgements made in making significant accounting estimates are indicative of a potential bias.

IDENTIFYING AND RESPONDING TO RISKS OF MATERIAL MISSTATEMENT DUE TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors (as required by auditing standards), from inspection of the Group's regulatory and legal correspondence and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

This included communication from the Group audit team to component audit teams of relevant laws and regulations identified at the Group level, and a request for component auditors to report to the Group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and pension legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, environmental protection legislation, and anti-bribery and corruption, recognising the regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

For the Health and Safety Executive matter discussed in note 33, we assessed disclosures against our understanding from legal correspondence, including discussions held with the lawyers as well as inspection of relevant documentation.

CONTEXT OF THE ABILITY OF THE AUDIT TO DETECT FRAUD OR BREACHES OF LAW OR REGULATION

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

7 WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

STRATEGIC REPORT AND DIRECTORS' REPORT

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

DIRECTORS' REMUNERATION REPORT

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

DISCLOSURES OF EMERGING AND PRINCIPAL RISKS AND LONGER-TERM VIABILITY

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation, on page 65, that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the principal risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and

7 WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION IN THE ANNUAL REPORT continued

DISCLOSURES OF EMERGING AND PRINCIPAL RISKS AND LONGER-TERM VIABILITY continued

- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability statement, set out on page 74 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and parent Company's longer-term viability.

CORPORATE GOVERNANCE DISCLOSURES

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the Audit Committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Report relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

8 WE HAVE NOTHING TO REPORT ON THE OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

9 RESPECTIVE RESPONSIBILITIES

DIRECTORS' RESPONSIBILITIES

As explained more fully in their statement set out on page 122, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company'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 they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

10 THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the terms of our engagement by the Company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report, and the further matters we are required to state to them in accordance with the terms agreed with the Company, 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 and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Gateway House
Tollgate
Chandlers Ford
Southampton
SO53 3TG

13 December 2022

FIVE-YEAR RECORD

For the year ended 31 October 2022

	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Revenue	**442.8**	393.3	402.5	335.2	297.4
Underlying operating profit	**64.0**	57.5	54.7	44.0	31.0
Non-underlying items	**(10.7)**	(7.1)	(8.4)	(12.7)	(46.9)
Operating profit/(loss)	**53.3**	50.4	46.3	31.3	(15.9)
Finance expense	**(1.5)**	(1.6)	(3.0)	(4.6)	(6.1)
Profit/(loss) before taxation	**51.8**	48.8	43.3	26.7	(22.0)
Taxation	**(4.4)**	(7.3)	(8.6)	(3.6)	(18.8)
Profit/(loss) for the year from continuing operations	**47.4**	41.5	34.7	23.1	(40.8)
(Loss)/profit after tax from discontinued operations	**—**	—	—	(1.2)	(65.0)
Profit/(loss) attributable to equity shareholders	**47.4**	41.5	34.7	21.9	(105.8)
Intangible assets and property, plant and equipment	**395.4**	351.5	348.9	329.9	318.9
Working capital	**93.9**	84.4	85.1	90.5	83.7
Provisions	**(18.4)**	(17.5)	(19.0)	(17.2)	(20.7)
Retirement benefit surplus	**11.2**	13.7	7.6	9.6	7.5
Net current and deferred tax liabilities	**(20.8)**	(24.5)	(16.3)	(8.5)	(11.1)
Net debt	**(7.2)**	(26.6)	(48.2)	(75.7)	(81.8)
Other	**(36.0)**	(28.2)	(28.5)	(22.8)	(2.3)
Net assets employed	**418.1**	352.8	329.6	305.8	294.2
Financed by:					
Ordinary share capital	**2.8**	2.8	2.8	2.8	2.8
Reserves attributable to equity shareholders	**307.7**	350.0	326.8	303.0	291.4
Total equity	**310.5**	352.8	329.6	305.8	294.2
Basic underlying earnings per ordinary share (continuing operations)	**20.2p**	16.9p	15.1p	11.2p	6.9p
Diluted underlying earnings per ordinary share (continuing operations)	**19.7p**	16.5p	14.8p	11.0p	6.7p
Basic earnings/(loss) per ordinary share (continuing operations)	**16.9p**	14.7p	12.3p	8.2p	(14.6)p
Diluted earnings/(loss) per ordinary share (continuing operations)	**16.4p**	14.4p	12.0p	8.1p	(14.6)p
Dividend per share	**5.7p**	4.8p	3.9p	3.6p	3.3p

CORPORATE INFORMATION AND WEBSITE

HEADQUARTERS AND REGISTERED OFFICE
Roke Manor
Old Salisbury Lane
Romsey
Hampshire
SO51 0ZN

T: +44 (0)1794 463401

F: +44 (0)1794 463374

E: info@chemring.com

Website: www.chemring.com

REGISTERED NUMBER
86662

REGISTRARS
Computershare Investor Services plc
The Pavilions
Bridgwater Road
Bristol
BS13 8AE

SUBSIDIARY UNDERTAKINGS' REGISTERED OFFICES

SUBSIDIARY UNDERTAKINGS IN ENGLAND:
Roke Manor
Old Salisbury Lane
Romsey
Hampshire
SO51 0ZN

SUBSIDIARY UNDERTAKING IN SCOTLAND:
Troon House
Ardeer Site
Stevenston
Ayrshire
KA20 3LN

SUBSIDIARY UNDERTAKINGS IN THE US:
23031 Ladbrook Drive
Dulles
Virginia
20166

SUBSIDIARY UNDERTAKING IN AUSTRALIA:
230 Staceys Road
Lara
Victoria
Australia
3212

SUBSIDIARY UNDERTAKING IN NORWAY:
Engeneveien 7
N-3475 Sætre
Norway

FIND OUT MORE ONLINE
For more information about Chemring Group PLC, please visit www.chemring.com where the latest shareholder information can be accessed, including:

- Current share price
- Key financial information
- Financial calendar
- Shareholder services and notices
- Corporate governance
- Results and presentations
- Analysts' forecasts
- Regulatory news

Chemring Group PLC's 2022 annual report and accounts and the notice for the Annual General Meeting can also be viewed and downloaded at www.chemring.com/investors.

FSC www.fsc.org MIX Paper from responsible sources FSC® C001785

WORLD LAND TRUST™ www.carbonbalancedpaper.com CBP016288

Chemring's commitment to environmental issues is reflected in this Annual Report, which has been printed on Magno Satin, an FSC® certified material. This document was printed by Park Communications using its environmental print technology, which minimises the impact of printing on the environment, with 99% of dry waste diverted from landfill. Both the printer and the paper mill are registered to ISO 14001.

Produced by
designportfolio

CHEMRING GROUP PLC
Roke Manor
Old Salisbury Lane
Romsey
Hampshire SO51 0ZN
United Kingdom
Tel: +44 (0)1794 463401
Email: info@chemring.com
www.chemring.com

Chemring
Innovating to protect