

CHEMRING GROUP PLC

Audit Committee Terms of Reference

1. Constitution

- 1.1 The Board has resolved to establish a Committee of the Board to be known as the Audit Committee.

2. Membership

- 2.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee and in consultation with the Committee Chair. The Committee shall comprise a minimum of three members, all of whom shall be independent non-executive directors. The Chairman of the Board shall not be a member of the Committee.
- 2.2 Appointments to the Committee shall be for a period of up to three years, extendable by no more than two additional three-year periods, provided the member continues to be independent.
- 2.3 The Committee as a whole shall have competence relevant to the sector in which the company operates, and at least one member shall have recent and relevant financial experience with competence in accounting and/or auditing, ideally with a professional qualification from a professional accountancy body.
- 2.4 The Board shall appoint the Committee Chair. In the absence of the Committee Chair or an appointed deputy, the remaining members present shall elect one of their number present to chair the meeting.
- 2.5 The company secretary, or his or her nominee, shall act as the secretary of the Committee and provide all necessary support to the Committee, including the recording of minutes and ensuring that the Committee receives information and papers in a timely manner to enable full and proper consideration of the relevant issues.

3. Attendance at meetings

- 3.1 The Committee shall meet at least three times a year at appropriate times in the reporting and audit cycle, and otherwise as required.
- 3.2 Outside of the formal meeting programme, the Committee Chair shall maintain a dialogue with key individuals involved in the company's governance, including the Chairman of the Board, the Chief Executive, the Chief Financial Officer, the external lead audit partner and the external lead internal audit partner or Internal Audit Manager as applicable.
- 3.3 Only members of the Committee have the right to attend and vote at Committee meetings. However, other individuals such as the Chairman of the Board, the Chief Executive, the Chief Financial Officer, other directors, the Internal Audit Manager and representatives from the company's finance function may be invited to attend all or part of any meeting at the discretion of the Committee Chair.

- 3.4 The external auditors and the internal auditors will be invited to attend meetings of the Committee on a regular basis.

4. Quorum

- 4.1 The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

5. Notice of meetings

- 5.1 Meetings of the Committee shall be called by the secretary of the Committee at the request of any of its members or at the request of the external or internal auditors if they consider it necessary.
- 5.2 Unless the Committee otherwise agrees, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than three days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

6. Minutes of meetings

- 6.1 The secretary of the Committee shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2 Draft minutes of Committee meetings shall be agreed with the Committee Chair and circulated promptly to all Committee members. Once approved, minutes shall be circulated to all other members of the Board unless in the Committee Chair's opinion it would be inappropriate to do so.

7. Annual General Meeting

- 7.1 The Committee Chair shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

8. Duties

The Committee shall carry out the following duties for Chemring Group PLC, major subsidiary undertakings and the Group as a whole, as appropriate.

8.1 *Financial reporting*

- 8.1.1 The Committee shall monitor the integrity of the financial statements of the company and the Group, including the annual and half-yearly reports, preliminary results announcements, and any other formal announcement relating to the Group's financial performance.
- 8.1.2 The Committee shall review and report to the Board on significant financial reporting issues and judgments which the financial statements, interim reports, preliminary announcements and related formal statements contain, having regard to the matters communicated to it by the external auditor.

8.1.3 In particular, the Committee shall review and challenge where necessary:

- 8.1.3.1 the application and appropriateness of significant accounting policies, including any changes to accounting policies both on a year-on-year basis and across the company and/or Group;
- 8.1.3.2 whether the company has made appropriate estimates and judgments, taking into account the external auditor's view;
- 8.1.3.3 the clarity and completeness of financial reporting disclosures and any changes to those disclosures, including the review of any correspondence between the company and the external auditor;
- 8.1.3.4 the methods used to account for significant or unusual transactions (including any off balance sheet arrangements) where different approaches are possible;
- 8.1.3.5 significant adjustments resulting from the external audit; and
- 8.1.3.6 the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and the longer-term viability statement (including an assessment of the prospects of the company and the Group looking forward over an appropriate and justified period).

8.1.4 The Committee shall also:

- 8.1.4.1 monitor compliance with financial reporting standards and any recognised investment exchange and other financial and governance reporting requirements;
- 8.1.4.2 review and consider any other audit or verification reports (other than those produced by the external auditor) relating to information or data included in the financial statements, including but not limited to reports on the verification of environmental performance data or other ESG-related data;
- 8.1.4.3 review all material information presented with the financial statements, such as the strategic report and the corporate governance statements, insofar as it relates to audit and risk management; and
- 8.1.4.4 review first any other statements that contain financial information and require Board approval, if carrying out a review before Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules or Disclosure Guidance and Transparency Rules sourcebook.

8.1.5 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the company, it shall report its views to the Board.

8.2 *Narrative reporting*

Where requested by the Board, the Committee shall review the content of the annual report and accounts, and advise the Board on whether, taken as a whole, it is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

8.3 *Risk management, internal controls and ongoing viability*

8.3.1 The Committee shall:

- 8.3.1.1 on behalf of the Board (which retains overall responsibility for risk management), review and monitor the company's internal financial control systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems, and at least annually, carry out a review of their effectiveness;
- 8.3.1.2 review and approve the statements to be included in the annual report concerning internal controls and risk management; and
- 8.3.1.3 where requested by the Board, ensure that a robust assessment of the principal risks faced by the company has been undertaken (including those risks that would threaten the company's business model, future performance, solvency or liquidity, and reputation, and provide advice on the management or mitigation of those risks.

8.3.2 The Committee shall also:

- 8.3.2.1 review the company's internal financial controls and internal control systems and, at least annually, carry out a review of their effectiveness, and approve statements to be included in the annual report concerning internal control; and
 - 8.3.2.2 monitor any significant deficiencies and material weaknesses in internal controls, as reported by the external or internal auditors, and the implementation by management of appropriate remedial action.
- 8.3.3 Where requested by the Board, the Committee shall provide advice on how, taking into account the company's position and principal risks, the company's prospects have been assessed, over what period and why the period is regarded as appropriate. The Committee shall also advise on whether there is a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary.

8.4 *Internal audit*

The Committee shall:

- 8.4.1 monitor and review the effectiveness of the Company's internal audit function in the context of the company's overall risk management system;
- 8.4.2 approve the appointment and removal of the internal auditors (whether external or internal);
- 8.4.3 consider and approve the remit of the internal auditors, and ensure they have adequate resources and appropriate access to information to enable them to perform their function effectively and in accordance with the relevant professional standards for internal auditors. The Committee shall also ensure the internal audit function has adequate standing and is free from management or other restrictions;
- 8.4.4 determine whether it is satisfied that the quality, experience and expertise of the internal auditors are appropriate for the business;

- 8.4.5 review and assess the annual internal audit plan, consider the requirement for other subject matter experts to be engaged to assist in delivery of the plan and monitor progress against the plan;
- 8.4.6 receive reports from the internal auditors or any other subject matter experts engaged to undertake reviews or audits as part of the agreed internal audit plan on a periodic basis;
- 8.4.7 review and monitor management’s responsiveness to the findings and recommendations of the internal auditors or any other subject matter experts engaged;
- 8.4.8 ensure the internal auditors have direct access to the Chairman of the Board and to the Committee Chair, and are accountable to the Committee; and
- 8.4.9 where appropriate, meet the internal auditors at least once a year, without management being present, to discuss the effectiveness of the internal audit function and any issues arising from the internal audits carried out.

8.5 *External audit*

The Committee shall, taking into account any applicable law and legislation, other professional requirements and the Financial Reporting Standard’s Revised Ethical Standard 2016 (the “Ethical Standard”):

- 8.5.1 consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the company’s external auditor;
- 8.5.2 ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms and, in respect of such tender, develop and oversee the selection process, ensuring that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
- 8.5.3 if any external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 8.5.4 oversee the relationship with the external auditor including (but not limited to):
 - 8.5.4.1 approval of their terms of engagement, including any engagement letter issued at the start of each audit, and the scope of the audit;
 - 8.5.4.2 agreeing and approving their remuneration, whether fees for audit or non-audit services, to ensure that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
 - 8.5.4.3 assessing annually their independence and objectivity taking into account relevant UK law, the Ethical Standard and other professional and regulatory requirements, and the relationship with the external auditor as a whole, including any threats to the auditor’s independence and the safeguards to mitigate those threats including the provision of any non-audit services;
 - 8.5.4.4 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the company (other than in the ordinary course of business) which could adversely affect the auditor’s independence and objectivity;

- 8.5.4.5 agreeing with the Board a policy on the employment of former employees of the company's external auditor, taking into account the Ethical Standard and legal requirements, and monitoring the implementation of this policy;
 - 8.5.4.6 monitoring the external auditor's policies and processes for maintaining independence and their compliance with relevant UK law, regulation and other professional requirements and the Ethical Standard, including guidance on the rotation of audit partners;
 - 8.5.4.7 assessing annually the qualifications, expertise and resources of the external auditor and, taking into account relevant UK professional and regulatory requirements, the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
 - 8.5.4.8 seeking to ensure co-ordination with the activities of the internal audit function; and
 - 8.5.4.9 evaluating the risks to the quality and effectiveness of the financial reporting process, and consideration of the need to include the risk of the withdrawal of the external auditor from the market in that evaluation;
- 8.5.5 meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage, and, at least once a year, without the executive directors and management being present, to review and discuss the auditor's remit and any issues identified during the audit;
- 8.5.6 review and approve the annual audit plan at the start of the audit cycle and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- 8.5.7 review the findings of the audit with the external auditor, which shall include (but not be limited to) the following:
- 8.5.7.1 a discussion of any major issues which arose during the audit;
 - 8.5.7.2 key accounting and audit judgments;
 - 8.5.7.3 the auditor's view of their interactions with senior management; and
 - 8.5.7.4 levels of errors identified during the audit;
- 8.5.8 review any representation letter(s) requested by the external auditor before they are signed by management and consider whether, based on its knowledge, the information provided is complete and appropriate;
- 8.5.9 review the management letter and management's response to the external auditor's findings and recommendations;
- 8.5.10 at the end of the audit cycle, assess the effectiveness of the audit process, including:
- 8.5.10.1 reviewing whether the external auditor has met the agreed audit plan and whether they identified any risks to audit quality and, if so, how these were addressed;
 - 8.5.10.2 understanding reasons for changes to the audit plan;

- 8.5.10.3 considering the external auditor's robustness and preparedness in handling key accounting and audit judgments, and responding to the Committee's questions; and
- 8.5.10.4 obtaining feedback from key people on the conduct of the audit;
- 8.5.11 develop and implement a policy on the provision of non-audit services by the external auditor, including the Committee's approval of non-audit services and the types of non-audit services, if any, to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include assessment of:
 - 8.5.11.1 threats to the external auditor's objectivity and independence, and any safeguards in place to eliminate or reduce threats;
 - 8.5.11.2 the nature of the non-audit services;
 - 8.5.11.3 in light of the external auditor's skills and experience, whether they are the most suitable supplier of the non-audit service;
 - 8.5.11.4 the fees for the non-audit services, both for individual services and in aggregate, relative to the audit fee, including special terms and conditions; and
 - 8.5.11.5 the criteria governing compensation of the individuals performing the audit; and
- 8.5.12 review the policy on the provision of non-audit services by the external auditor on an annual basis.

8.6 *Whistleblowing, fraud and compliance*

The Committee shall:

- 8.6.1 review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- 8.6.2 review the Company's procedures for detecting fraud; and
- 8.6.3 review the Company's systems and controls for the prevention of bribery, and receive reports on non-compliance.

9. **Reporting responsibilities**

- 9.1 The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities
- 9.2 The Committee shall also prepare a formal report on its activities and how it has discharged its responsibilities to be included in the company's annual report, which shall include:
 - 9.2.1 a summary of the role and work of the Committee;
 - 9.2.2 details of the membership of the Committee, number of meetings held and attendance over the course of the year;

- 9.2.3 how the Committee’s performance evaluation has been conducted;
 - 9.2.4 the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the external auditor, the nature and extent of any interaction with the Financial Reporting Council’s Corporate Reporting Review team and any significant findings of a review of the company’s audit conducted by the Financial Reporting Council’s Audit Quality Review team;
 - 9.2.5 an explanation of how the Committee has addressed the effectiveness of the external audit process, and the approach taken to the appointment or reappointment of the external auditor, including length of the incumbent audit firm’s tenure, the current audit partner’s name and for how long the partner has held the role, when a tender was last conducted and advance notice of any retendering plans, and any contractual provisions restricting the company’s choice of external auditor;
 - 9.2.6 if the external auditor provides non-audit services, the Committee’s policy for approval of non-audit services, how auditor objectivity and independence is safeguarded, the audit fees for the statutory audit of the Group’s consolidated financial statements paid to the external auditor and its network firms for audit-related services and non-audit services, including the ratio of audit to non-audit work; and for each significant engagement or category of engagements, an explanation of the services provided and why the Committee considered it was in the interests of the company to procure them from the external auditor;
 - 9.2.7 an explanation of how the Committee has addressed the effectiveness of the internal audit process, and satisfied itself that the quality, experience and expertise of the function is appropriate for the business;
 - 9.2.8 all other information requirements set out in the UK Corporate Governance Code; and
 - 9.2.9 any other issues on which the Board has requested the Committee’s opinion.
- 9.3 In compiling the report referred to in 9.2, the Committee should exercise judgment in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board’s assessment of whether the company is a going concern and the longer-term viability statement. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.
- 9.4 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

10. Other matters

The Committee shall:

- 10.1 have access to sufficient resources in order to carry out its duties, including access to the company secretary for assistance as required;
- 10.2 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;

- 10.3 give due consideration to all applicable laws and regulations, including the directors' duties contained in the Companies Act 2006, the provisions of the UK Corporate Governance Code and the requirements of the Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules published by the Financial Conduct Authority, and any other applicable rules as appropriate;
- 10.4 oversee any investigation of activities which are within its terms of reference;
- 10.5 work and liaise as necessary with all other Board committees; and
- 10.6 arrange for periodic reviews of its own performance, and at least annually, review its terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

11. Authority

The Committee is authorised to:

- 11.1 carry out all duties set out in these terms of reference, to have unrestricted access to the company's documents and information and to obtain, at the company's expense, appropriate independent legal or other professional advice on any matter within its terms of reference as it consider necessary;
- 11.2 seek any information it requires from any employee in order to perform its duties;
- 11.3 call any employee to be questioned at a Committee meeting as and when required; and
- 11.4 have the right to publish in the company's annual report details of any issues that cannot be resolved between the Committee and the Board.