

CHEMRING GROUP PLC

Remuneration Committee Terms of Reference

1. Constitution

- 1.1 The Board has resolved to establish a Committee of the Board to be known as the Remuneration 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 may be a member of, but not chair, the Committee if they were considered to be independent on appointment.
- 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 Board shall appoint the Committee Chair, who before such appointment should have served on a remuneration committee for at least twelve months. 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.
- 2.4 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 twice a year and otherwise as required.
- 3.2 Only members of the Committee have the right to attend and vote at Committee meetings. However, other individuals such as the Chief Executive, the Chief People Officer and external advisers may be invited to attend all or part of any meeting at the discretion of the Committee Chair.
- 3.3 No person shall participate at a meeting of the Committee (or during a relevant part) at which any part of their remuneration is being directly discussed or participate in any recommendation or decision specifically concerning their remuneration.

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 the Committee Chair.
- 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 *Remuneration policy and practices*

The Committee shall:

- 8.1.1 determine and agree with the Board the policy for the remuneration and benefits of the Chairman, the Chief Executive, the executive directors, the company secretary and such other members of the senior management as it is designated to consider;
- 8.1.2 in determining the remuneration policy, take into account all factors which it deems necessary, including:
- 8.1.2.1 relevant legal and regulatory requirements, the provisions and recommendations of the UK Corporate Governance Code and associated guidance;
 - 8.1.2.2 the need to promote the long-term sustainable success of the company and the alignment to the company purpose and values, without paying more than is necessary, having regard to the views of shareholders and other stakeholders, and ensuring that executive directors, the company secretary and senior executives are rewarded in a fair and responsible manner, provided with appropriate incentives to encourage enhanced performance and are rewarded for their individual contributions;

- 8.1.2.3 the strategy of the company, and how the policy reflects and supports the long-term strategy;
 - 8.1.2.4 the company's risk appetite and risk management strategy, ensuring that the remuneration policy is aligned to the company's risk policies and systems and long-term strategic goals; and
 - 8.1.2.5 any shareholding requirements, including vesting and holding periods, and any post-employment shareholding requirements for executive directors, the company secretary and senior executives that encompass both unvested and vested shares;
 - 8.1.3 when determining executive director remuneration policy and practices, address the following factors set out in Provision 40 of the UK Corporate Governance Code: clarity, simplicity, risk, predictability, proportionality and alignment to culture;
 - 8.1.4 when determining remuneration schemes and the remuneration policy, consider the use of discretion by the Committee to override formulaic outcomes;
 - 8.1.5 review at least annually the ongoing appropriateness and relevance of the remuneration policy and consult with significant shareholders, as appropriate, on the policy or any other aspects of remuneration;
 - 8.1.6 within the terms of the agreed remuneration policy, determine the total remuneration package for the Chairman of the Board and each element of the total individual remuneration package for each executive director, the company secretary and senior executives including (to the extent applicable):
 - 8.1.6.1 base salary;
 - 8.1.6.2 profit sharing and specific incentive remuneration schemes or arrangements;
 - 8.1.6.3 participation in share option schemes and share ownership plans;
 - 8.1.6.4 pension arrangements, including the level of contributions by the company; and
 - 8.1.6.5 other bonuses and benefits in cash or in kind;
 - 8.1.7 ensure, where relevant, that any payments made in respect of any remuneration package are permitted under the latest shareholder approved remuneration policy and, if not, that either a revised remuneration policy or the proposed payment is submitted for shareholder approval;
 - 8.1.8 exercise any discretion or judgment on remuneration outcomes in accordance with any incentive schemes and the remuneration policy, taking account of company and individual performance, and wider circumstances; and
 - 8.1.9 agree the policy for authorising claims for expenses from the directors.
- 8.2 *Share based remuneration and bonus arrangements*

The Committee shall:

- 8.2.1 recommend for approval by the Board the design of, and determine the targets for, the operation of all long-term incentive schemes in which the executive directors, the company secretary and senior executives participate. For any such schemes or plans,

determine each year whether the awards will be made, and if so, approve the levels of participation in such schemes or plans by those individuals;

- 8.2.2 monitor and assess any performance conditions applicable to any long-term incentive awards granted under any schemes or plans adopted by the company. Ensure that the performance conditions are fully explained, aligned to the company purpose and values, and clearly linked to the successful delivery of the company's long-term strategy and enhancement of shareholder value;
- 8.2.3 consider whether the executive directors, the company secretary and senior executives should be eligible for annual bonuses;
- 8.2.4 recommend for approval by the Board the design of, and determine annual targets and key performance indicators for, any bonus scheme operated by the company and assess performance against targets and key performance indicators, by the company, individual executive directors, the company secretary and senior executives;
- 8.2.5 exercise independent judgment and discretion when authorising outcomes under all incentive arrangements, taking account of company and individual performance, and wider circumstances;
- 8.2.6 design and invoke agreed safeguards, for example, clawback or withholding the payment of any sum or share award, to protect against rewards for failure through appropriate risk management of any incentive arrangements to ensure that any performance-related payments reflect actual achievements; and
- 8.2.7 ensure that all incentive arrangements are aligned to the company's risk policies and systems, its purpose and values, support the strategy and promote long-term sustainable success.

8.3 *Pensions*

The Committee shall:

- 8.3.1 review the pension arrangements for the executive directors, the company secretary and senior executives, and consider:
 - 8.3.1.1 the alignment of pension contribution rates, or payments in lieu, for executive directors, the company secretary and senior executives with those available to the workforce; and
 - 8.3.1.2 the pension consequences and associated costs to the Company of basic salary increases and any other changes in pensionable remuneration or contribution rates, particularly for directors close to retirement, when compared with workforce arrangements.

8.4 *Service contracts and severance*

The Committee shall:

- 8.4.1 approve the terms of the service contracts, the duration of which shall not normally exceed one year's notice period, for executive directors, the company secretary and senior executives, and any material amendments to those contracts;

- 8.4.2 determine the policy for, and scope of, termination payments and compensation commitments for each executive director, the company secretary and senior executives, and ensure that poor performance is not rewarded and that there is a clear policy to link non-contractual payments to performance; and
- 8.4.3 ensure that contractual terms on termination, and any payments made, are fair to the individual and the company and in accordance with legal and regulatory requirements, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

8.5 *Workforce remuneration and related policies*

The Committee shall:

- 8.5.1 review workforce remuneration and related policies, and the alignment of incentives and rewards with culture;
- 8.5.2 when setting the policy for executive director remuneration, take into account the matters in paragraph 8.5.1;
- 8.5.3 engage with the workforce to explain how decisions on executive pay reflect wider company pay policy; and
- 8.5.4 oversee any major changes in remuneration and employee benefits structures throughout the Group.

8.6 *Remuneration consultants*

The Committee shall:

- 8.6.1 to help it to fulfil its obligations and enable it to judge where to position the company relative to other companies, have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary, at the expense of the company but within any budgetary restraints imposed by the Board; and
- 8.6.2 be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee.

8.7 *Shareholder approval*

The Committee shall:

- 8.7.1 produce a report to shareholders annually on matters relating to executive remuneration that shall include the information required to be disclosed by the Companies Act 2006 (including any regulations made under that Act), the UK Corporate Governance Code, the Listing Rules (as published by the Financial Conduct Authority) and any other relevant statutory, regulatory or governance codes and incorporate:
 - 8.7.1.1 an annual statement by the Committee Chair and annual report on directors' remuneration (together the "annual remuneration report"); and

- 8.7.1.2 the directors' remuneration policy when it must be submitted for approval in accordance with paragraph 8.7.2 (the "directors' remuneration policy") and, in any other case, either the directors' remuneration policy, a summary of such policy or details of when the directors' remuneration policy was approved and where it can be found on the company's website;
- 8.7.2 submit the directors' remuneration policy for approval by the board and shareholders:
 - 8.7.2.1 every three years;
 - 8.7.2.2 in any year in which there is a change to the policy;
 - 8.7.2.3 if shareholder approval was not obtained when last submitted; and
 - 8.7.2.4 if majority shareholder approval was not achieved on the last submitted annual remuneration report;
- 8.7.3 submit the annual remuneration report for approval on an advisory basis by the Board and shareholders at the Annual General Meeting each year; and
- 8.7.4 subject to delegation of authority by the Board, engage in appropriate discussions as necessary with shareholders if, 20 per cent. or more of votes have been cast by shareholders against a resolution to approve the annual remuneration report or directors' remuneration policy at any Annual General Meeting or general meeting, as the case may be, and agree with the Board any appropriate disclosure, including in the annual report.

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:
 - 9.2.1 report to the Board on workforce reward, incentives and conditions, and support the Board's monitoring of the alignment of company policies and practices with culture and strategy;
 - 9.2.2 make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed;
 - 9.2.3 ensure that provisions regarding the disclosure of information, including pensions, as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and the UK Corporate Governance Code, are fulfilled;
 - 9.2.4 prepare a formal report for shareholders to be incorporated in the company's annual report that shall include the matters referred to in paragraph 8.7.1 above and ensure that it is submitted for approval in accordance with paragraphs 8.7.2 and 8.7.3 above;
 - 9.2.5 if the Committee has appointed remuneration consultants, identify in the annual report, the name of the consultants and state whether they have any connection with the company or individual directors;

- 9.2.6 ensure, through the Chairman of the Board, that the company maintains contact, and the Committee Chair seeks engagement, as required, with the company's major shareholders on significant matters related to the Committee's areas of responsibility;
- 9.2.7 prepare and adopt a report on the Committee's work and activities for inclusion in the company's annual report setting out:
 - 9.2.7.1 the number of meetings of the Committee and individual attendance by the members; and
 - 9.2.7.2 the matters listed in Provision 41 of the UK Corporate Governance Code and other information recommended by the Code.

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 laws and regulations and published guidelines or recommendations regarding the remuneration of directors of listed companies and formation and operation of share schemes including but not limited to the Companies Act 2006, the principles and provisions of the UK Corporate Governance Code, the requirements of the Listing Rules, the Financial Conduct Authority's Prospectus Rules and Disclosure Guidance and Transparency Rules, as well as guidelines published by the Investment Association, the Pensions and Lifetime Savings Association, the GC100 and Investor Group and any other applicable rules, as appropriate;
- 10.4 keep abreast of external remuneration trends and market conditions;
- 10.5 work and liaise as necessary with all other Board committees, including the Nomination Committee in respect of any remuneration package to be offered to any new appointee of the Board; and
- 10.5 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 professional advice on any matter within its terms of reference as it considers necessary;
- 11.2 secure the attendance of external advisers at its meetings if it considers this necessary, at the company's expense;

- 11.3 seek any information it requires from any employee to perform its duties;
- 11.4 call any employee to be questioned at a Committee meeting as and when required;
and
- 11.5 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.