

CHEMRING GROUP PLC

Terms of Reference - Remuneration Committee

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. The Committee shall be made up of at least two 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. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Group Chief Executive and external advisers may be invited to attend for all or part of any meeting as and when appropriate.
- 2.3. The membership of the Committee shall be reviewed on an annual basis by the Nomination Committee.
- 2.4. The Board shall appoint the Committee Chairman who shall be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

3. Secretary

- 3.1. The Company Secretary shall act as the Secretary of the Committee, but shall not be present during discussion of the Company Secretary's remuneration.

4. Quorum

- 4.1. The quorum necessary for the transaction of business shall be two. 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. Meetings

- 5.1. The Committee shall meet at least twice a year and at such other times as the Chairman of the Committee shall require.
- 5.2. Meetings may, if necessary, take place by telephone, provided there is a quorum and the Secretary of the Committee is included.

6. Notice of Meetings

- 6.1. Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members.
- 6.2. Unless otherwise agreed, 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. However the Committee members reserve the right, if necessary, to consider papers on shorter notice.

7. Minutes of Meetings

- 7.1. The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 7.2. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists.

8. Annual General Meeting

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

9. Duties

The Committee shall:

- 9.1. determine and agree with the Board the framework or broad policy for the remuneration of the Group Chief Executive, the Chairman, the executive directors, the Company Secretary and such other members of the executive management as it is designated to consider. The remuneration of non-executive directors shall be a matter for the Chairman and the executive members of the Board. No director or manager shall be involved in any decisions as to their own remuneration;
- 9.2. in determining such policy, take into account all factors which it deems necessary. The objective of such policy shall be to attract and retain executive directors and senior executives of the right quality and to avoid paying more than is required, whilst encouraging enhanced performance in a fair and responsible manner, rewarding them for their individual contributions to the success of the Company;
- 9.3. review the ongoing appropriateness and relevance of the remuneration policy;
- 9.4. determine from time to time all elements of the remuneration of the Group Chief Executive, executive directors, the Company Secretary and such other senior executives as it is designated to consider. Remuneration shall include, but not exclusively:
 - base salary;
 - profit sharing and incentive remuneration schemes;
 - participation in share option schemes and share ownership plans;
 - payments in respect of consultancy services;
 - pension arrangements and the level of contributions by the Company; and
 - other bonuses and benefits in kind.
- 9.5. approve the design of, and determine targets for, any performance related pay schemes operated by the Company and approve the total annual payments allowable under such schemes;
- 9.6. review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to executive directors and other senior executives and the performance targets to be used;
- 9.7. to decide any dispute or question relating to an option or the exercise thereof.

- 9.8. to exercise discretion to determine if and on what terms a participant may exercise options after he has ceased to be in full time service for reasons other than those specified in the relevant scheme rules which could automatically permit exercise after termination;
- 9.9. determine the policy for, and scope of, pension arrangements for each executive director and other senior executives;
- 9.10. approve the terms of any contract with an executive director, including but not limited to service contracts and consultancy contracts and the duration thereof which should not normally exceed one year's notice period or which should reduce to one year after an initial period, ensuring that the Committee has considered the financial consequences of early termination and the advantages of providing explicitly in the initial contract for specific compensation commitments except in the case of removal for misconduct;
- 9.11. ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- 9.12. within the terms of the agreed policy and in consultation with the Chairman and/or Group Chief Executive as appropriate, determine annually the total individual remuneration package of each executive director and other senior executives including bonuses, incentive payments and share options or other share awards;
- 9.13. in determining such packages and arrangements, give due regard to any relevant legal requirements, the provisions and recommendations in the Combined Code and the UK Listing Authority's Listing Rules and associated guidance;
- 9.14. review and note annually the remuneration trends across the Company and Group;
- 9.15. oversee any major changes in employee benefits structures throughout the Company or Group;
- 9.16. agree the policy for authorising claims for expenses from the Group Chief Executive and the Chairman;
- 9.17. ensure that all provisions regarding disclosure of remuneration including pensions, as set out in the Directors' Remuneration Report Regulations 2002 and the Combined Code are fulfilled; and
- 9.18. be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee: and to obtain reliable, up-to-date information about remuneration in other companies. The Committee shall have full authority to commission any reports or surveys which it deems necessary to help it fulfil its obligations.

The Chairman of the Board should ensure that the Company maintains contact with its principal shareholders about remuneration in the same way as for other matters.

10. **Reporting Responsibilities**

- 10.1. The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 10.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.3. The Committee shall produce an annual report, for approval by the Board, of the Company's remuneration policy and practices, which will form part of the Company's Annual Report, ensuring that disclosures about remuneration, including pensions, which are required by law,

(including the Directors' Remuneration Report Regulations 2002 or the UK Listing Rules), are made and that it is put to shareholders for approval at the AGM.

11. Other

11.1. The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

12. Authority

12.1. The Committee is authorised by the Board to seek any information it requires from any employee of the Company in order to perform its duties.

12.2. In connection with its duties the Committee is authorised by the Board to obtain, at the Company's expense, any outside legal or other professional advice.

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