

RESPONSE TO THE ASSESSMENT OF CHEMRING GROUP PLC BY TRANSPARENCY INTERNATIONAL IN ITS DEFENCE COMPANIES ANTI-CORRUPTION INDEX 2020 (“DCI”)

Chemring Group PLC (“Chemring”) takes anti-corruption very seriously and we adopt a zero tolerance approach to bribery and corruption within our business.

The DCI has been prepared by Transparency International (“TI”) based solely on a review of our 2019 Annual Report, documents and information included on our website, including our Code of Conduct, and other publically-available information in early 2020. In addition to our Code of Conduct, we operate under an Operational Framework, which provides an enhanced governance and compliance framework to enable Chemring and our employees to operate in a safe, consistent and accountable way. The Operational Framework contains a wide range of policies including policies on Whistleblowing, Political Donations and Lobbying, Offset, Community Investment, Conflicts of Interest and Anti-Corruption. The Anti-Corruption Policy contained in the Operational Framework is supplemented by our Bribery Act Compliance Manual (“BACM”), which incorporates all of Chemring’s procedures for the prevention of bribery and corruption.

Whilst our Code of Conduct is published on our website, we consider that BACM and our detailed internal policies and procedures are commercially sensitive and we do not therefore make these publically available. This is line with the approach taken by the majority of our peers. BACM has now been in place for nine years and has been updated a number of times since its introduction in 2011. The latest edition, Issue 4, came into force in November 2019. BACM builds on the processes we had previously adopted in order to demonstrate compliance with the European Common Industry Standards on Anti-Corruption for defence and aerospace businesses. Our BACM processes have been reviewed and benchmarked a number of times by external experts, and we are confident that they reflect best practice for our industry.

We do not believe that TI’s assessment of Chemring within the DCI accurately or fairly reflects the anti-corruption standards in place at Chemring in early 2020, based on the limitation of the assessment to publically-available information. Furthermore, we continue to strengthen our compliance regimes to reflect continually-evolving guidance and best practice, and accordingly, we have taken further steps to enhance our BACM processes over the last year. We believe that these should be taken into consideration when reviewing the published DCI.

This statement outlines the additional factors that should be reflected in the assessment of Chemring’s anti-corruption standards in the areas considered by TI and supplement TI’s observations.

1. Leadership and accountability

- In early 2020, Chemring established an Ethics & Compliance Committee, which is chaired by Carl-Peter Forster, the Chairman of the Board, with the other members being the Group Chief Executive, the President of our US operations and the Group Legal Director & Company Secretary. This 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 improvement in the future. The Committee reviews and monitors BACM compliance at every meeting, and considers internal audit reports on BACM and its deployment across the Group. The membership of this Committee, which consists of the most senior leaders across Chemring, demonstrates the Board’s

commitment to ensuring we conduct our business in an ethical and responsible manner at all times.

- External and internal audit findings in relation to BACM compliance are also considered by Chemring's Audit Committee.

2. Internal controls

- Our Chemring culture embraces transparency and openness, and we encourage all employees to speak up if they have any concerns. Our whistleblowing policy and associated procedures enable all employees to raise concerns, in confidence, about possible improprieties or wrongdoing within the business, without fear of reprisal or retaliation.
- Our internal procedures on the handling of whistleblowing reports ensure that all reports made are dealt with in a proper and consistent manner, with appropriate oversight from the UK and US legal departments. The Board and the Ethics & Compliance Committee receive an overview of all whistleblowing reports received, the investigations carried out and any remedial action plans identified. Whistleblowers are updated, as appropriate, on the outcome of investigations.

3. Support to employees

- During 2019, Chemring introduced a BACM "Pocket Guide" which is now issued to all employees across the Group, providing an overview of our anti-corruption policies and the requirements of the detailed manual.
- Regular mandatory training on BACM and its application to their respective roles is provided to all employees working within commercial, sales and marketing, procurement, finance, human resource and other customer-facing functions. Board members are also required to complete this training. Chemring has one business in Norway where English is not the first language. Our online "Preventing Bribery and Corruption" training module is provided to Chemring Nobel employees in Norwegian.
- All employees are required to view a training video on our Code of Conduct, which includes material on our anti-bribery policy.
- Training material is now disseminated through our new online compliance system implemented in 2020, the "Chemring Compliance Portal" (the "CCP"), and is supplemented by in-person training where required. Deployment of training through the CCP allows us to monitor completion of training and ensure that training is provided to new employees at the earliest opportunity.
- The annual bonus plan for the senior leadership teams across the Group includes personal objectives relating to governance and compliance, including BACM compliance.
- Our Code of Conduct and our whistleblowing policy enable employees to raise concerns if they find themselves in a position where they are being asked to act unethically. Chemring will protect and support any employee in this position - our emphasis is always on "doing the right thing". We monitor employee sentiment on matters such as trust in our whistleblowing arrangements through our real-time engagement tool "Employee Voice".

4. Conflict of interest

- Our Conflicts of Interest Policy within our Operational Framework sets out Chemring's requirements in relation to the prevention, disclosure and proper management of conflicts of interest. The policy covers actual, potential and perceived conflicts of interest, and references

specific examples of where conflicts may arise in relation to customers (noting that many of Chemring's customers are governments) and government appointments.

- Every business is required to maintain a conflicts of interest register, which is required to be submitted to the UK legal department with their BACM Compliance Certificate on a half-yearly basis.

5. Customer engagement

- Our Community Investment Policy within our Operational Framework provides guidelines on employee involvement in charitable activities and community engagement initiatives, and our policy on donations (both cash and in-kind) to charities and other not-for-profit organisations, and states that these must be in full compliance with all applicable laws and regulations, our Code of Conduct and BACM. This policy also covers sponsorships.
- Charitable donations are required to be approved through the CCP and records are maintained in the CCP of such donations. The Group Chief Executive is required to approve certain types of charitable donations.
- Our Political Donations and Lobbying Policy within our Operational Framework provides guidelines on political and lobbying activities undertaken by our businesses and our employees, and states that these must be in full compliance with all applicable laws and regulations, our Code of Conduct and BACM. BACM identifies political lobbying companies as a type of higher risk service provider, for which enhanced due diligence, approval and monitoring requirements are mandated.

6. Supply chain management

- Each Chemring business has its own procurement department which oversees supply chain management. All suppliers are currently being transitioned to the CCP, which automates our anti-bribery requirements including due diligence and monitoring of suppliers.
- All suppliers are issued with our Supplier Code of Conduct and requested to comply with our ethical business standards.
- Specific requirements are included in BACM with regards to higher risk suppliers covering due diligence, approval and monitoring.

7. Agents, intermediaries and joint ventures

- Chemring has operated risk-based anti-corruption due diligence, approval and monitoring processes for its third party sales partners since before the UK Bribery Act. External due diligence is obtained for sales partners operating in higher risk territories or where significant values are involved. Establishing the sale partners' ultimate beneficial ownership is a key requirement of this due diligence. Our BACM anti-corruption processes are now automated through the CCP.
- All agreements with sales partners include anti-corruption obligations, and address the timing and mechanism for payments to the sales partners. BACM only permits payments to sales partners to be made to bank accounts in the country in which they are based or in which they operate.
- BACM includes detailed requirements on the establishment of joint ventures from an anti-corruption perspective and mandates risk-based due diligence on potential joint venture partners. Chemring would not enter into a joint venture with a third party who would not commit to our ethical business standards and these requirements would be reflected in any joint venture agreements.

8. Offset

- Our Offset Policy within our Operational Framework states our commitment to ensuring that any offset activity is undertaken in full compliance with all applicable laws and regulations, our Code of Conduct and BACM. BACM includes detailed requirements on potential offset arrangements from an anti-corruption perspective and mandates risk-based due diligence on potential offset partners.
- All potential contracts including offset obligations require review and approval by the Group Chief Executive and the UK legal department.

Sarah Ellard

Group Legal Director & Company Secretary
Chemring Group PLC