

Terms of Reference for an Audit Committee

("Committee")

of the Board of Directors of Vectura Group plc

("Company")

1. CONSTITUTION AND AUTHORITY

- 1.1 The Committee has been established by the board of Directors of the Company ("**Board**") under article 94.2 of the Company's Articles of Association and in accordance with the Combined Code on Corporate Governance published by the Financial Reporting Council in July 2003 ("**Combined Code**").
- 1.2 The Committee is authorised to investigate and undertake any activity within these terms of reference. It is authorised to seek any information it properly requires in order to perform its duties from any employee of the Company or any subsidiary undertaking of the Company ("**Group**"). All such employees are directed to co-operate with any such request made by the Committee.
- 1.3 If the Committee considers it necessary so to do, it is authorised to obtain appropriate external professional advice including, without limitation, legal and accounting advice to assist it in the performance of its duties, to secure the services of outsiders with relevant experience and expertise. The cost of obtaining such advice or services shall be borne by the Company.
- 1.4 Each member of the Committee shall disclose to the Committee:
- 1.4.1 any personal, financial or other interest in any matter to be decided by the Committee; or
- 1.4.2 any potential conflict of interest arising from a cross-directorship or otherwise; and
- any such member shall abstain from voting on resolutions of the Committee in relation to which such interest exists and from participating in the discussions concerning such resolutions and (if so required by the Board) shall resign from the Committee.

2. COMPOSITION AND MEETINGS

- 2.1 The Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Audit Committee, and shall comprise at least two members. All members of the Committee shall be non-executive directors, who should where possible be independent, and at least one of whom shall have recent and relevant financial experience.
- 2.2 The Chairman of the Audit Committee, who shall be a non-executive director and shall not be Chairman of the Company, shall be appointed by the Board. In the case of an equality of votes, the Chairman of the Audit Committee shall have a second or casting vote.

- 2.3 Wherever practicable, the Chairmanship and membership of the Committee shall be regularly rotated.
- 2.4 If a member is unable to act for any reason, the Chairman of the Audit Committee may appoint another non-executive director as an additional member.
- 2.5 Without prejudice to 2.3 above, appointments to the Committee shall be for a period of up to three years, which may be extended for two further three year periods.
- 2.6 The Committee shall meet not less than three times in each financial reporting year and at such other times as the Chairman of the Committee or the external or internal auditors (if they so consider it necessary) shall require. Any member of the Committee or the secretary may at any time convene a meeting of the Committee. If they consider that one is necessary, the Company's external auditors ("**external auditors**") may at any time request a meeting of the Committee. The quorum for any meeting of the Committee shall be two. Meetings may be held by telephone.
- 2.7 Care should be taken to minimise the risk of any conflict of interest that might be seen to give rise to an unacceptable influence.
- 2.8 The Committee may ask the Chairman of the Company, Chief Executive, Finance Director, the heads of risk, compliance and internal audit and any relevant senior member of staff from the finance function to attend meetings either regularly or by invitation, but such persons have no right of attendance.
- 2.9 A representative of the external auditors should normally attend all meetings of the Committee.
- 2.10 The Chairman of the Committee who shall be a non-executive director shall be appointed by the Board on the recommendation of the Nomination Committee. In the event of an equality of votes, the Chairman of the Committee shall have a second or casting vote.
- 2.11 The Company Secretary or his or her nominee shall be secretary of the Committee. In the absence of the Chairman or any appointed deputy, the remaining members present shall elect one of their number to chair the meeting.

3. **DUTIES**

The Committee should carry out the duties set out below in respect of the Company and Group, as appropriate.

3.1 **Internal Control and Risk Management Systems**

The Committee shall:

- 3.1.1 keep under review the effectiveness of the Company's reporting and internal control policies and procedures for the identification, assessment and reporting of risk management systems; and
- 3.1.2 review and approve the statement to be included in the Annual Report concerning internal controls and risk management.

3.2 **Whistleblowing**

The Committee shall review the Company's arrangements for its employees 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.

3.3 **Internal Audit**

To the extent that an internal audit function exists with the Company, taking into account its size and complexity, the Committee shall:

- 3.3.1 monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- 3.3.2 approve the appointment and removal of the head of the internal audit function;
- 3.3.3 consider and approve the remit of the internal audit function, ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- 3.3.4 review and assess the annual internal audit plan;
- 3.3.5 review promptly all reports on the Company from the internal auditors;
- 3.3.6 to consider the major findings of any internal investigations and management's response to them;
- 3.3.7 review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- 3.3.8 meet the Head of Internal Audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out, and give the Head of Internal Audit the right of direct access to the Chairman of the Committee and the Committee.

3.4 External Audit

The Committee shall:

- 3.4.1 consider and make recommendations to the Board to be put to shareholders for approval at the AGM as regards the appointment, re-appointment and removal of the Company's external auditors;
- 3.4.2 oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- 3.4.3 oversee the relationship with the external auditor including (but not limited to):
 - 3.4.3.1 approval of their remuneration, whether fees for audit or non audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
 - 3.4.3.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - 3.4.3.3 assessing annually their 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;
 - 3.4.3.4 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business);
 - 3.4.3.5 agreeing with the Board a policy on the employment of former employees of the company's auditor, then monitoring the implementation of this policy;
 - 3.4.3.6 monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements; and
 - 3.4.3.7 assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
- 3.4.4 meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;

- 3.4.5 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- 3.4.6 review the effectiveness of the external audit;
- 3.4.7 review the consistency of accounting policies, both from year to year and across the Group; and
- 3.4.8 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
 - 3.4.8.1 a discussion of any major issues which arose during the audit,
 - 3.4.8.2 any accounting and audit judgements, and
 - 3.4.8.3 levels of errors identified during the audit.

3.5 **Financial Reporting**

The Committee shall:

- 3.5.1 monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature;
- 3.5.2 review and challenge where necessary all of the Company's financial statements, taking into account:
 - 3.5.2.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/Group;
 - 3.5.2.2 major judgement areas including the methods used to account for significant or unusual transactions where different approaches are possible;
 - 3.5.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - 3.5.2.4 the clarity of disclosure in the Company's financial reports and the context in which statements are made;
 - 3.5.2.5 compliance with London Stock Exchange and legal requirements and good corporate governance practices;

- 3.5.2.6 the going concern assumption;
 - 3.5.2.7 significant adjustments resulting from the audit; and
 - 3.5.2.8 all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management); and
- 3.5.3 review the annual financial statements of the pension funds where not reviewed by the Board as a whole.

3.6 Reporting Responsibilities

- 3.6.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 3.6.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 3.6.3 The Committee shall compile a report to shareholders on its activities to be included in the Company's Annual Report.

3.7 Other Matters

The Committee shall:

- 3.7.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 3.7.2 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;
- 3.7.3 give due consideration to laws and regulations, the provisions of the Combined Code and the requirements of London Stock Exchange plc;
- 3.7.4 be responsible for co-ordination of the internal and external auditors;
- 3.7.5 oversee any investigation of activities which are within its terms of reference and act as a court of the last resort;
- 3.7.6 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.

4. ANNUAL GENERAL MEETING

The Chairman of the Committee shall attend each annual general meeting and be available to answer shareholder's questions.

5. NOTICE OF MEETINGS

The Secretary of the Committee shall circulate a notice of any meeting of the Committee confirming the venue, time and date of the meeting and enclosing the agenda of business to be covered at the meeting not less than 5 working days before each meeting of the Committee, to all members of the Committee and the external auditors. Supporting papers shall be sent to members of the Committee 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 resolutions of all the Committee meetings, including the names of those present and in attendance.

6.2 The Secretary shall circulate the minutes of Committee meetings to all members of the Committee and the external auditors and to the Chairman of the Board [and make them available on request to other members of the Board.