

**Terms of Reference of the Remuneration Committee ("Committee")**

**of the Board of Directors of Vectura Group plc ("Company")**

**Adopted at a meeting of the Board held on 10 June 2004**

**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 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 advice and the advice of independent remuneration consultants 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 Committee and shall consist only of non-executive directors who should where possible be independent and shall comprise at least two members.

- 2.2 Wherever practicable, the Chairmanship and membership of the Committee shall be regularly rotated.
- 2.3 The Committee may invite any person it thinks appropriate to attend any Committee meetings. The Chief Executive should normally be invited to attend the Committee's meetings to discuss the performance of the executive directors and to make proposals as necessary.
- 2.4 Without prejudice to 2.2 above, members of the Committee shall be appointed for a period of up to three years, which may be extended for two further three-year periods.
- 2.5 The Committee shall meet not less than twice a year and at such other times as the Chairman of the Committee shall require. Any member of the Committee or the Secretary may at any time convene a meeting of the Committee. The quorum for any meeting of the Committee shall be two. Meetings may be held by telephone.
- 2.6 No member of the Board shall participate at a meeting of the Committee (or during the relevant part) at which any part of his remuneration is being discussed or participate in any recommendation or decision concerning his remuneration.
- 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 Chairman of the Committee who shall be a non-executive director, shall be appointed by the Board. In the case of an equality of votes, the Chairman of the Committee shall have second or casting vote.
- 2.9 The Company Secretary or his or her nominee shall be the 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.
- 2.10 If a member is unable to act for any reason, the Chairman of the Committee may appoint another non-executive director as an additional member.

### 3. **DUTIES**

The Committee shall:

- 3.1 determine and agree with the Board the framework or broad policy for the remuneration of the Company's Chief Executive, the executive directors, the Company Secretary and, if required by the Board, senior management of the Company and its subsidiaries ("Group"). 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 his or her own remuneration;

- 3.2 in determining the framework or broad policy take into account such factors which it deems necessary. The objectives of such policy shall be to ensure that members of the executive management of the Group are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Group. It shall also liaise with the Nomination Committee to ensure that the remuneration of newly appointed executives is within the Company's overall policy;
- 3.3 review the ongoing appropriateness and relevance of the Group's remuneration policy;
- 3.4 determine the policy for, and scope of pension arrangements for each executive director and other senior executives;
- 3.5 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;
- 3.6 within the terms of the agreed policy and in consultation with the Chairman and/or Chief Executive as appropriate, determine the total individual remuneration package of each executive director and other senior executives included bonuses, incentive payments and share options or other share awards;
- 3.7 in determining such packages and arrangements, give due regard to any relevant legal or regulatory requirements, the provisions and recommendations of the Combined Code and any other institutional investors advisory body, including without limitation, published guidelines or recommendations regarding the remuneration of directors of listed companies and the formation and operation of share option schemes (in particular, the guidelines published by the Association of British Insurers and National Association of Pension Funds) which the committee considers relevant or appropriate;
- 3.8 review and note annually the remuneration trends across the Company or Group;
- 3.9 consider and determine the other provisions of the service agreements of directors and (if required) senior managers (in particular, the term of their agreement, the length of any notice period, termination payments and compensation commitments);
- 3.10 consider any bonuses to be paid to the executive directors and, in respect of any element of remuneration which is performance-related, to formulate suitable performance-related criteria and monitor their operation, and to consider any recommendations of the Chief Executive regarding bonuses or performance-related remuneration;

- 3.11 to advise on and determine all performance-related formulae relevant to the remuneration of the executive directors and to consider their eligibility for annual bonuses and benefits and long term incentive schemes;
- 3.12 review the design of all share incentive plans operated by or to be established by the Company, including, but not limited to (subject to the scheme rules and any applicable legal, or regulatory requirements):
  - 3.12.1.1.1 the selection of the eligible directors and other employees to whom the options should be granted;
  - 3.12.1.1.2 the timing of the grant;
  - 3.12.1.1.3 the number of shares over which options are to be granted;
  - 3.12.1.1.4 the exercise price at which options are to be granted;
  - 3.12.1.1.5 the imposition of any objective condition which must be complied with before any option may be exercised.
- 3.13 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;
- 3.14 oversee any major changes in employee benefit structures, throughout the Group;
- 3.15 agree the policy for authorising the reimbursement of any claims for expenses from the Chief Executive and Chairman of the Company;
- 3.16 ensure that all provisions regarding disclosure of remuneration including pensions, as specified in the Combined Code and elsewhere are fulfilled;
- 3.17 be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee;
- 3.18 assess the remuneration paid by other UK Companies of a similar size in any comparable industry sector and to assess whether changes to the executive directors remuneration is appropriate for the purpose of making their remuneration competitive and otherwise comparable with the remuneration paid by such companies;
- 3.19 consider such other matters as may be reasonably requested by the Board; and
- 3.20 consider and make recommendations to the Board about the public disclosure of information about the executive directors' remuneration packages and structures in addition to those

required by law, including but not limited to Schedule 7A of the Companies Act 1985 (as amended).

**4. REPORTING RESPONSIBILITIES**

The Committee shall produce an annual report of the Company's remuneration policy and practices which will form part of the Company's annual report and shall, if considered appropriate to the Company's circumstances, each year put it to shareholders for approval at the AGM.

**5. PERFORMANCE REVIEW**

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.

**6. REPORTING TO SHAREHOLDERS**

6.1 The Committee should report annually to shareholders on the Board's behalf. Its report should be included in the Company's annual report in compliance with the Companies Act 1985 and the Combined Code.

6.2 The Chairman of the Committee should attend the Company's Annual General Meeting for the purpose of handling questions and enquiries at the meeting about the remuneration of executive directors.

**7. EXCLUSIONS**

7.1 The terms of reference for the Committee do not encompass decisions to employ or dismiss executive directors. The Committee does not have responsibility for the nominations for the Board.

**8. 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 five working days before each meeting of the Committee, to all members of the Committee. Supporting papers shall be sent to members of the Committee and to other attendees as appropriate at the same time.

9. **MINUTES**

9.1 The Secretary of the Committee shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.

9.2 The Secretary shall circulate the minutes of Committee meetings to all members of the Committee and the Chairman of the Board and, if requested to do so by the Committee, shall make them available to other members of the Board unless a conflict of interest exists.