VECTURA GROUP PLC
Incorporated and registered in England and Wales
Number: 03418970

Letter from the Chairman
Notice of General Meeting

THIS DOCUMENT IS IMPORTANT AND
REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to what action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other independent advisor duly authorised under the Financial Services and Markets Act 2000.

If you have recently sold or otherwise transferred all your shares in Vectura Group plc, please pass this document and the accompanying document(s) to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

Notice of a General Meeting of Vectura Group plc ("the Company") to be held at 1.00pm at the offices of Covington & Burling LLP, 265 Strand, London WC2R 1BH on Thursday 24 September 2015 is set out on page 3 of this document.

Whether or not you propose to attend the General Meeting, please complete and submit a Form of Proxy either in hard-copy or by electronic means in accordance with the instructions printed on the enclosed form as soon as possible but in any event so as to be received by not later than 1.00pm on Tuesday 22 September 2015. If you hold Vectura Group plc shares in CREST, you may also appoint a proxy using CREST by following the instructions set out on pages 4 and 5 of this document. Completion and return of the Form of Proxy will not preclude you from attending and voting at the General Meeting in person, should you so wish.

Directors
Bruno Angelici (Non-Executive Chairman)
Dr Trevor Phillips (Interim Chief Executive and Chief Operating Officer)
Andrew Oakley (Chief Financial Officer and Company Secretary)
Dr John Brown (Non-Executive Director)
Dr Susan Foden (Non-Executive Director)
Neil Warner (Non-Executive Director)
Dr Per-Olof Andersson (Non-Executive Director)

Registered Office
Vectura Group plc
One Prospect West
Chippenham
Wiltshire SN14 6FH
www.vectura.com

21 August 2015

Dear shareholder

General Meeting

I am pleased to invite you to a General Meeting of Vectura Group plc ("the Company"). The General Meeting will take place after the Annual General Meeting on Thursday 24 September 2015 at the offices of Covington & Burling LLP, 265 Strand, London WC2R 1BH and will start at 1.00pm.

Your vote counts

Your vote is important to us – you can:

- attend and vote at the General Meeting; or .
- complete and return the enclosed Form of Proxy; or
- lodge your proxy using the internet; or
- register your proxy vote electronically by using the service provided by Euroclear UK & Ireland Limited for members of CREST.

Enclosed with this circular are the following:

- General Meeting Attendance Card and Form of Proxy; and
- pre-paid envelope for return of your Form of Proxy.

If you have any questions regarding your shareholding (e.g. share certificates), or you have received more than one copy of this Notice, please call our Registrars, Computershare Investor Services PLC, on 0370 707 1387.

Your Directors consider that the resolutions proposed to be approved at the General Meeting are in the best interests of the Company and shareholders as a whole. We recommend that you vote in favour of these resolutions, as we propose to do in respect of our own holdings, which amount to 0.15% of the ordinary issued share capital of the Company.

Yours sincerely

B. Angelici

Bruno Angelici
Chairman
Vectura Group plc

Notice is hereby given that a General Meeting of Vectura Group plc will be held at the offices of Covington & Burling LLP, 265 Strand, London WC2R 1BH on Thursday 24 September 2015 at 1.00pm, for the purposes of considering and, if thought fit, passing the following resolutions.

Both resolutions will be proposed as ordinary resolutions and each resolution must receive over 50% of the votes cast to be passed.

Ordinary resolutions

1 To approve the Directors' remuneration policy, which is set out in Appendix 1 to this Notice.

2 That the rules of the Vectura Group 2015 Long-Term Incentive Plan ("the Plan") produced in draft to this meeting and, for the purposes of identification, initialled by the Chairman, be approved and the Directors be authorised to:

(a) make such modifications to the Plan as they may consider appropriate to take account of the requirements of best practice and for the implementation of the Plan and to adopt the Plan as so modified and to do all such other acts and things as they may consider appropriate to implement the Plan; and

(b) establish further plans based on the Plan but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the Plan.

By order of the Board

Andrew Oakley
Company Secretary
Vectura Group plc
21 August 2015

Resolutions to be decided by a poll

1 All resolutions proposed at the General Meeting will be decided by a poll. This is a more transparent method of voting and means that the votes of all shareholders, including those of our shareholders who cannot attend the meeting but who submit a Form of Proxy, are counted. In accordance with Article 42 of the Company's Articles of Association, at the beginning of the meeting the Chairman of the General Meeting will demand a poll on each of the resolutions.

Entitlement to attend and vote

2 To be entitled to attend and vote at the General Meeting (and for the purpose of the determination by the Company the number of votes that may be cast), the Company specifies, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, that shareholders must be registered in the Register of Members of the Company as at 6.00pm on Tuesday 22 September 2015 (or, in the event of any adjournment, at 6.00pm on the date that is two business days before the date of the adjourned meeting). Changes to entries in the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote (and the number of votes they may cast) at the General Meeting or adjourned meeting.

Appointment of proxies

3 Members of the Company entitled to attend, speak and vote at the General Meeting are entitled to appoint a proxy to exercise on their behalf all or any of their rights to attend and to speak and vote at the General Meeting. A shareholder may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy or proxies may be appointed by:

(a) completing and returning the accompanying hard-copy Form of Proxy (see notes 11, 12 and 13); or

(b) lodging a proxy using the internet (see note 14); or

(c) through the CREST electronic proxy appointment service (see notes 16 to 19). If you wish your proxy to speak on your behalf at the General Meeting you will need to appoint a proxy of your own choice (not the Chairman) and give your instructions directly to them.

4 The return of a completed Form of Proxy, the lodgement of a proxy using the internet or any CREST Proxy Instruction will not prevent a shareholder attending the General Meeting and voting in person if he or she wishes to do so. If you have appointed a proxy and attend the meeting in person, your proxy appointment will be automatically terminated.

5 The statement of the rights of shareholders in relation to the appointment of proxies in notes 3 and 4 above does not apply to Nominated Persons (see note 20). The rights described in these paragraphs can be exercised only by shareholders of the Company.

6 A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter that is put before the General Meeting.

7 To change your proxy instructions, submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments also applies in relation to amended instructions: any amended proxy appointment received after the relevant cut-off time will be disregarded.

8 Where you have appointed a proxy using the hard-copy Form of Proxy and would like to change the instructions using another hard-copy Form of Proxy, please contact the Company's Registrars' helpline on 0370 707 1387 or, if telephoning from outside the UK, on +44 370 707 1387 from Monday to Friday between 8.30am and 5.30pm. Calls to Computershare's 0370 number from landlines are typically charged up to 9p per minute; calls from mobiles typically cost between 8p and 40p per minute. Calls from landlines and mobiles are included in free call packages but providers' costs may vary. Calls to Computershare from outside the UK are charged at applicable international rates. Calls may be recorded and monitored randomly for security and training purposes. Computershare cannot provide advice on the merits of the proposed resolutions, nor give any financial, legal or tax advice.

9 If you submit more than one valid proxy appointment in respect of the same shares, the appointment received last before the latest time for the receipt of proxies will take precedence.

10 In order to revoke a proxy instruction, you will need to inform the Company by sending a signed notice, clearly stating your intention to revoke your proxy appointment, to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY. In the case of a shareholder that is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received no later than 1.00pm on Tuesday 22 September 2015, or 48 hours before the time appointed for the holding of an adjourned General Meeting. If you attempt to revoke your proxy appointment but the revocation is received after the time specified, then, subject to note 4, your proxy appointment will remain valid.

Appointment of proxy using hard-copy Form of Proxy

11 A Form of Proxy that may be used to make such appointment and give proxy instructions accompanies this Notice. If you do not have a Form of Proxy and believe that you should have one, or if you require additional forms, please contact Computershare Investor Services PLC on 0370 707 1387. The notes to the Form of Proxy that accompanies this Notice explain how to direct your proxy to vote or withhold your vote on each resolution.

12 In the case of joint holders, the signature of only one of the joint holders is required on the Form of Proxy. Where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the more senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first-named being the more senior).

13 To be valid, any hard-copy Form of Proxy must be completed and signed and received by post or (during normal business hours only) by hand at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY no later than 1.00pm on Tuesday 22 September 2015, or 48 hours before the time appointed for the holding of an adjourned General Meeting or (in the case of a poll taken otherwise than at or on the same day as the General Meeting or adjourned General Meeting) for the taking of the poll at which it is to be used.

14 As an alternative to completing the hard-copy Form of Proxy, you can submit your proxy by electronic means by lodging a proxy with Computershare Investor Services PLC using the internet at www.eproxyappointment.com. You will be asked to enter a Control Number, Shareholder Reference Number (SRN) and PIN, all of which are printed on the hard-copy Form of Proxy that accompanies this Notice, and to agree to certain terms and conditions. To be valid, a proxy lodged by electronic means must be lodged no later than 1.00pm on Tuesday 22 September 2015, or 48 hours before the time appointed for the holding of an adjourned General Meeting or (in the case of a poll taken otherwise than at or on the same day as the General Meeting or adjourned General Meeting) for the taking of the poll at which it is to be used.

Receipt of documents or information relating to proxies

15 You may submit any documents relating to proxies, such as any document necessary to show the validity of, or otherwise relating to, the appointment of a proxy or a notice of termination of the authority of a proxy by email to web.queries@computershare.co.uk. However, any Form of Proxy sent to this address will not be valid. Any proxy should either be submitted in hard-copy in accordance with note 13, by electronic means in accordance with note 14, or through the CREST electronic proxy appointment service in accordance with notes 16 to 19.

Appointment of proxies through CREST

16 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

17 In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message ("a CREST Proxy Instruction") must be properly authenticated in accordance with the specifications of Euroclear UK & Ireland Limited (the operators of CREST), and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 3RA50) by 1.00pm on Tuesday 22 September 2015. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

18 CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this regard, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

19 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Nominated Persons

20 If you are a person who has been nominated by a shareholder under section 146 of the Companies Act 2006 to enjoy information rights ("a Nominated Person"):

(a) You may have a right under an agreement between you and the shareholder who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the General Meeting.

(b) If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights.

(c) Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

Corporate representatives

21 Any corporation that is a member can appoint one or more corporate representatives to exercise on its behalf the same powers as if it were an individual member of the Company provided that they do so in relation to different shares held.

Issued shares and total voting rights

22 As at 13 August 2015 (being the latest practicable date prior to the printing of this Notice) the Company's issued share capital consisted of 406,508,071 ordinary shares of 0.025p each, carrying one vote each. At 13 August 2015 the Company did not hold any shares in treasury. Therefore, the total number of voting rights in the Company as at 13 August 2015 was 406,508,071.

23 Further information can be found at: www.vectura.com about:

(a) the matters set out in this Notice;

(b) the total number of shares in the Company and the shares of each class in respect of which shareholders are entitled to exercise voting rights at the General Meeting;

(c) the total number of voting rights that shareholders are entitled to exercise at the General Meeting in respect of the shares of each class; and

(d) any shareholders' statements, shareholders' resolutions and shareholders' matters of business received by the Company after the date of this notice.

Entitlement to ask questions

24 Pursuant to section 319A of the Companies Act 2006, any shareholder attending the General Meeting has the right to ask questions relating to the business being dealt with at the meeting. In certain circumstances, prescribed by section 319A, the Company need not answer a question. For example, where answering the question would interfere unduly with the operation of the meeting or involve disclosure of confidential information, or the answer is in the undesirable interest of the Company.

Details of communications

25 Except as provided above, shareholders who wish to communicate with the Company in relation to the General Meeting should do so by writing to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY. No other methods of communication will be accepted. In particular, you may not use any electronic address provided either in this Notice of General Meeting or in any related documents (including in the Chairman's letter and the Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.

Documents on display

26 The following documentation, which is available for inspection during business hours at the registered office of the Company and at the offices of Covington & Burling LLP, 265 Strand, London WC2R 1BH, on any weekday (public holidays excluded) from the date of this Notice until the close of the meeting, will also be available for inspection at the place of the General Meeting from 10.30am on the day of the meeting until the conclusion of the meeting:

(a) copies of the Company's revised Directors' remuneration policy; and

(b) copies of the Rules of the Vectura Group 2015 Long-Term Incentive Plan.

The notes on the following pages give an explanation of the proposed resolutions.

Both resolutions are proposed as ordinary resolutions. This means that, for each of those resolutions to be passed, more than half of the votes cast (more than 50%) must be in favour of the resolution.

The Directors consider that the resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole. The Board unanimously recommends that you vote in favour of the resolutions, as they propose to do in respect of their own beneficial holdings of ordinary shares in the issued share capital of the Company.

Ordinary resolutions

Resolution 1 – Approval of Directors' remuneration policy

Over the past year, the Remuneration Committee has been reviewing the Company's remuneration policy to reflect the Group's significant development in recent years. In undertaking this review, the Remuneration Committee has sought to strike a balance between supporting value creation for shareholders over the longer-term and creating alignment with shareholders with giving the opportunity to receive exceptional rewards for delivering the Company's strategic direction.

As a result of the review, the Remuneration Committee proposes to replace the Company's 2012 Long Term Incentive Plan (which would have expired in September 2017) with a new long-term incentive plan. The introduction of the new plan will require changes to the remuneration policy that was approved by shareholders at the Company's 2014 Annual General Meeting. Details of the key changes to the policy are set out below.

Due to the recent changes to the Company's Board and Executive Management Team, the Remuneration Committee was unable to complete its review in time to include the details of the new proposed policy in the 2014/15 remuneration report. The Company is instead holding this General Meeting to seek shareholder approval for the proposed changes.

The key proposed changes to the remuneration policy are:

(a) to grant awards to Executive Directors and the Executive Management Team with three and five-year vesting periods;

(b) to grant awards up to a maximum individual limit of 250% of salary to reflect more challenging performance targets measured over longer performance periods; and

(c) to introduce a one-year holding period for vested shares which are subject to a three-year vesting period.

The new remuneration policy, incorporating these proposed changes, is set out in Appendix 1 to this Notice.

Once approved by shareholders, the amended policy will be valid for three years from the date of the 2015 General Meeting. However, if the Company wishes to change the remuneration policy, it would need to put the revised policy to a shareholder vote for approval before it could implement that new policy.

Payments will continue to be made to Directors and former Directors in line with the existing remuneration policy approved by shareholders at the Annual General Meeting in 2014 until the date of the 2015 General Meeting.

Resolution 2 – Approval of the 2015 Long-Term Incentive Plan

Resolution 2 relates to the establishment of a new long-term incentive plan to replace the Company's current 2012 Long Term Incentive Plan ("the 2012 Plan").

The new Vectura Group 2015 Long-Term Incentive Plan will share many of the features of the 2012 Plan but has been updated to reflect current legislation, best practice and corporate governance requirements. The main terms of the new plan are summarised in Appendix 2 to this Notice.

The new Long-Term Incentive Plan will be used primarily to grant awards to Executive Directors and the Executive Management Team. The Remuneration Committee believes that the new plan will ensure that the level of reward for senior executives is strongly tied to the performance and delivery of the Company's medium to long-term strategy, and that the new plan will create an appropriate balance between stretching targets and the management of risk, and maintenance of stability and strategic progress.

Dear shareholder,

Last year, as Chair of the Remuneration Committee at Vectura Group plc I wrote to key shareholders to set out a number of proposed changes to Vectura's remuneration policy including proposed increases in levels of salary and annual incentive opportunity, reflecting the Group's significant development over recent years. The feedback received from a number of shareholders at that time was that they would prefer increased remuneration to be delivered primarily through the long-term incentive arrangements. As a result no changes were made to the annual incentive opportunity pending completion of the review process which remained ongoing, with incentive arrangements in particular the focus of further consideration this year.

The Committee has now concluded its review; however, it was not able to do so in time to include details of the changes in the 2014/15 remuneration report. This was in part due to the time required for full discussion and in part the result of the changes taking place at Board level, in particular the search for a new Chief Executive Officer which concluded with the appointment of James Ward-Lilley, who joins Vectura in October. As a result, the Company is seeking approval for changes to its remuneration policy at a General Meeting to be held immediately after Vectura's Annual General Meeting on Thursday 24 September 2015. This means that the changes outlined in this circular do not appear in the Company's remuneration report for the year ended 31 March 2015.

Background

The past year has continued to be one of significant success for Vectura. Activaero has been successfully integrated and the Group has completed its portfolio review and confirmed the strategy for the newly acquired Activaero assets. The Group has seen revenue growth as a result of organic growth in high quality royalty streams and significant development milestones earned during the year. These milestone events are linked to what we expect to be significant revenue streams to Vectura over the coming years. As such, the Group will be well positioned to deliver on its current strategy and ambitions to become a speciality pharma company.

These significant financial and strategic successes to date have been delivered alongside significant returns to shareholders over the medium to long-term.

Remuneration philosophy

The Remuneration Committee's philosophy is that remuneration for the Group as a whole should support value creation for shareholders over the longer term and create alignment with shareholders. It therefore agrees with the views expressed last year that long-term incentives should comprise the most significant element of the remuneration package, with the other elements of remuneration set at or below a mid-market level. Further, the long-term incentive performance metrics should be stretching, clearly aligned with shareholder value and measured over a period of at least three years and ideally longer. The Committee believes that, overall, the long-term incentive plan should be capable of delivering exceptional rewards but only for exceptional performance.

The Committee has reviewed its policy for Vectura's Executive Directors against this thinking and these aims and is seeking shareholder approval to replace the Company's 2012 Long Term Incentive Plan ("the 2012 Plan") (which will expire in any event in September 2017) with a new long-term incentive plan ("the new LTIP").

The introduction of the new LTIP will require changes to the policy which was approved by shareholders at the 2014 AGM. Details of the key changes to the policy and the new LTIP are set out below.

In order to increase the focus on long-term performance alignment between management and shareholders, it is proposed that in future annual LTIP awards will be structured as follows:

- A three-year element with annual grants of up to 100% of salary that vest after three years subject to performance measured over three financial years, with an additional one-year holding period applying to post-tax vested shares from the date of vesting.
- A five-year element with annual grants of up to 100% of salary that vest after five years subject to service and performance measured over five financial years.
- An additional "kicker" of up to 50% of salary at grant may vest for performance at or above the upper decile after five years (i.e. the maximum potential five-year award for continual exceptional performance will be 150% of salary).
- The performance conditions (applying to both the three and five-year awards) will be as follows:
  - 50% relative to total shareholder return ("TSR") vs FTSE 250 Index excluding financial services and real estate sector companies; and
  - 50% relative TSR vs bespoke group of European pharmaceutical companies (listed in the enclosed remuneration policy).
- The performance targets will be made more challenging than in the 2012 Plan (most notably for the proposed five-year element):
  - For the three-year element, 15% of each award vests at median, increasing to 100% at upper quartile.
  - For the five-year element, 15% of each award vests at median, increasing to 100% at the upper decile.
  - The kicker vests in full for performance that is at or above the upper decile after five years.
- Recovery and withholding conditions will apply.
- The share ownership guidelines will increase from 100% to 200% of salary to reflect the increase in long-term incentive opportunity.
- Vectura normally grants LTIP awards in June. This year, however, it is proposed that the grant of 2015 awards is delayed until after the General Meeting on Thursday 24 September so that awards may be granted under the new scheme.

We consider the changes set out above to be appropriate for a company of Vectura's size and ambition and will increase alignment between executive director and shareholder interests by significantly lengthening the time horizon of the incentive arrangements, imposing more challenging performance conditions and delivering a greater proportion of executive remuneration in shares.

Yours sincerely

Dr Susan Foden
Chair of the Remuneration Committee
21 August 2015

Vectura's remuneration policy has been prepared in accordance with the provisions of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

Directors' remuneration policy

Vectura's remuneration policy is driven by its strategy and business model. The Remuneration Committee's philosophy is that the remuneration arrangements for the Group as a whole should support value creation for shareholders over the longer term and create alignment with shareholders. It therefore believes that long-term incentives should comprise the most significant element of the remuneration package, with the other elements of remuneration set at or below a mid-market level. Further, the long-term incentive performance metrics should be stretching, clearly aligned with shareholder value and measured over a period of at least three years and ideally longer. The Committee believes that, overall, the long-term incentive plan should be capable of delivering exceptional rewards but only for exceptional performance.

As part of the revised policy outlined below, the Committee proposes to implement a new Long-Term Incentive Plan ("LTIP"). Under this scheme, the performance period over which a proportion of the LTIP award shall be measured shall be increased and this is designed to encourage alignment between management and shareholders over a long timeframe, consistent with the long-term nature of Vectura's operations. The key features of the proposed scheme are set out in the table below.

Summary remuneration policy

The following table and accompanying notes set out the main principles of reward for the Executive Directors of Vectura Group plc. It is intended that this policy will, if approved by shareholders, take effect immediately after the General Meeting on Thursday 24 September 2015.

For the avoidance of doubt, any commitments entered into by the Company prior to the approval and implementation of the policy outlined below may be honoured, even if they are not consistent with the policy prevailing at the time the commitment is fulfilled.

Executive Directors

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Base salary			
To recruit and retain executives of the highest calibre who are capable of delivering the Group's strategic objectives, reflecting the individual's experience and role within the Group. Base salary is designed to provide an appropriate level of fixed income to avoid an over-reliance on variable pay elements that could encourage excessive risk taking.	The Committee aims to set base salary at levels that are broadly aligned with the midpoints for equivalent roles in comparable companies in the UK, adjusted to reflect company size and complexity. Salaries are normally reviewed annually and changes are generally effective from 1 April. The annual salary review of Executive Directors takes a number of factors into consideration, including: • business performance; • salary increases awarded to the overall employee population; • skills and experience of the individual over time; • scope of the individual's responsibilities; • changes in the size and complexity of the Group; • market competitiveness; and • the underlying rate of inflation.	Base salary increases are awarded at the discretion of the Committee; however, salary increases will normally be no greater than the inflationary pay rises awarded to the wider workforce. Where a higher level of increase is appropriate given the performance and contribution of the incumbent, or where there has been a change in responsibilities, the Committee retains the discretion to award more significant base salary increases.	No formal metrics although increases will take account of Group performance.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Benefits			
Benefits in kind offered to Executive Directors are provided on a market-competitive basis, to assist with the retention and recruitment of staff.	The Company aims to offer benefits that are in line with market practice. The main benefits currently provided are life assurance, permanent health insurance and private medical and dental insurance. Under certain circumstances the Group will offer relocation allowances to employees.	The value of each benefit is not predetermined and is based upon the cost to the Group.	Not performance related.
Pensions			
The Group aims to provide market-competitive retirement benefits, to reward sustained contribution.	The Group operates a money purchase scheme and all employees, including Executive Directors, are invited to participate. For executives who are affected by the HMRC lifetime or annual allowances, the Company may provide cash supplements in respect of benefits above the allowance.	Up to 20% of basic salary contribution to the Group Personal Pension Plan or equivalent cash allowance.	Not performance related.
Annual performance bonus			
An annual cash bonus rewards the achievement of stretching objectives that support the Group's corporate goals and delivery of the business strategy together with goals in relation to personal performance.	Objectives are agreed with the Committee, and the Board as a whole, at the start of each financial year. Different performance measures and weightings may be used each year, as agreed with the Committee, to take into account changes in the business strategy. Bonuses are paid at the discretion of the Remuneration Committee. The Committee takes into account overall corporate performance and individual performance when determining the final bonus amount to be awarded. Bonuses are normally paid in cash, typically in June. Under the rules of the scheme, the Committee can claw back up to 100% of the bonus awarded in the event of material misstatement of the Company's financial results, an error in assessing the performance conditions to which an award is subject or for any other matter which it deems relevant.	Bonuses are limited to a maximum of 100% of base salary for each Executive Director.	Corporate goals typically include revenue generation, development of pipeline progress, partnering successes and control of cash expenditure, although the Committee has discretion to set other targets. Goals set are specific, measurable and are linked to the Group's longer-term strategy. 0% of the maximum is payable at threshold performance.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Long-Term Incentive Plan (LTIP) (awards made after September 2015)			
The Remuneration Committee believes that a key component of the overall remuneration package is the provision of equity awards to senior executives through the LTIP which is designed to develop a culture which encourages strong corporate performance on an absolute and relative basis.	Annual awards of performance shares that vest according to performance conditions measured over at least three financial years. Awards subject to three-year performance conditions are subject to an additional one-year post-vesting holding requirement on the net of tax value of shares vesting. Awards will be subject to claw back where there has been a misstatement of the Company's financial results, an error in assessing the performance conditions to which an award is subject or for any other matter which it deems relevant.	Annual awards of up to 250% of salary may be granted. For Executive Directors this will normally comprise: • a three-year element of up 100% of salary; • a five-year element of up to 100% of salary; and • a five-year 'kicker' of up to 50% of salary.	Future awards will be based on relative total shareholder return (TSR) against two peer groups, with each determining the vesting of 50% of the awards. Awards are subject to the following vesting scales: • three-year element: 15% vests at median rising to 100% vesting at upper quartile; • five-year element: 15% vests at median rising to 100% vesting at upper decile; and • five-year kicker: 100% vests for performance above the upper decile. The Committee retains the discretion to vary the peer groups, weighting between them and introduce new metrics for awards in future years providing they are not materially less challenging in the circumstances. The Committee would normally consult with its major shareholders before making significant changes to the performance conditions. Awards are subject to an underpin based on the Committee's assessment of the Group's underlying performance against a range of factors, including the Company's underlying financial performance, absolute shareholder returns and progress against milestones over the performance period. Any exercise of discretion will be fully disclosed to shareholders. The performance conditions for previous long-term incentive awards are described in the Directors' remuneration report.
All-employee share schemes			
All employees, including Executive Directors, are encouraged to become shareholders of Vectura Group plc through participation in our all-employee share schemes. The Group currently offers employees the opportunity to participate in the Vectura Sharesave scheme and the Vectura Share Incentive Plan.	Both of the schemes offered are HMRC approved schemes and operate on standard terms.	Participation limits are set by the relevant tax authorities from time to time.	Not performance related and no performance conditions apply.
Share ownership guidelines			
Share ownership guidelines for Executive Directors and senior employees are designed to align the interests of senior management to those of Vectura's shareholders.	In accordance with best practice, Executive Directors are required to retain at least half of any share awards vesting as shares (after paying any tax due) until they have reached the required level of holding.	Executive Directors are required to build and retain a holding of Vectura Group plc shares equivalent to at least 200% of their base salary.	Not performance related.

Chairman and Non-Executive Directors

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Fees			
Set at a level that is sufficient to attract and retain high-calibre Non-Executives.	The Chairman and the Non-Executive Directors receive fees paid in cash, with additional fees received for chairing committees of the Board, fulfilling the role of Senior Independent Director, or for transatlantic travel. Fees are paid monthly and reviewed annually. The Chairman and the Non-Executive Directors do not participate in any performance-related incentive schemes, nor do they receive any benefits, other than limited travel and hospitality related benefits in connection with their roles.	When reviewing fee levels, account is taken of market movements in the fees of Non-Executive Directors, Board committee responsibilities and ongoing time commitments.	Not performance related.

Notes to the policy table

Performance conditions

The Committee selected the performance conditions outlined in the remuneration policy because they are central to the Group's overall strategy and they are the key metrics used by the Executive Directors to oversee the operations of the business. The Committee considers that the performance targets for the LTIP and the bonus represent an appropriate balance between the long-term and short-term performance of the Group, as well as an appropriate balance between external and internal assessments of performance.

For the initial awards under the new LTIP two relative TSR peer groups will be used with each determining the vesting of 50% of the awards. These are the constituents of the FTSE 250 Index excluding financial services and real estate sector companies, and a bespoke group of European pharmaceutical companies (Ab Science, Laboratorios Farmaceuticos Rovi, Ablynx, Lonza Group, Actelion, Meda "A", Alk-Abello, Medivir "B", Almirall, Merck Kgaa, Morphosys, Basilea Pharmaceutica "R", Bavarian Nordic, Bb Biotech N, Novozymes, Biotest, Orion "B", Boiron, Qiagen, Btg, Recordati Industria Chimica, Ceyland SA, Richter Gedeon, Chr Hansen Holding, Cosmo Pharmaceuticals, Dechra Pharmaceuticals, Shire, Evotec, Siegfried "R", Faes Farma, Sopharma, Galapagos, Stada Arzneimittel, Genfit, Stallergenes, Genmab, Swedish Orphan Biovitrum, Genus, Thrombogenics, Transgene, Grifols Ord Cl A, Tubize Financiere, Guerbet, Ucb, H Lundbeck, Valneva, Hikma Pharmaceuticals, Vetoquinol, Innate Pharma, Virbac, Ipsen, Zealand Pharma, Krka and Zeltia). These two groups have been chosen as they provide a balanced assessment of the returns delivered to shareholders by Vectura.

The targets for the bonus scheme for the forthcoming year will be set out in general terms, subject to limitations with regards to commercial sensitivity. The full details of the targets will be disclosed when they are in the public domain, usually following the end of the relevant financial year in the Directors' remuneration report.

Committee discretion

The Committee operates under the powers it has been delegated by the Board. In addition, it complies with rules that have either been approved by shareholders (Long-Term Incentive Plan) or by the Board (annual performance bonus scheme). These rules provide the Committee with certain discretions which serve to ensure that the implementation of the remuneration policy is fair, both to the individual Director and to the shareholders. The Committee also has discretions to set components of remuneration within a range, from time to time. The extent of such discretions is set out in the relevant rules, the maximum opportunity or the performance metrics section of the policy table above.

To ensure the efficient administration of the variable incentive plans outlined above, the Committee will apply certain operational discretions. These include the following:

- selecting the participants in the plans on an annual basis;
- determining the timing of grants of awards and/or payments;
- determining the quantum of awards and/or payments (within the limits set out in the policy table above);
- determining the extent of vesting based on the assessment of performance;
- making the appropriate adjustments required in certain circumstances, for instance for changes in capital structure;
- determining "good leaver" status for incentive plan purposes and applying the appropriate treatment; and
- undertaking the annual review of weighting of performance measures and setting targets for the annual bonus plan and other incentive schemes, where applicable, from year to year.

If an event occurs which results in the annual bonus plan or LTIP performance conditions and/or targets being deemed no longer appropriate (e.g. material acquisition or divestment), the Committee will have the ability to adjust appropriately the measures and/or targets and alter weightings, provided that the revised conditions are not materially less challenging that the original conditions.

Changes made to the policy during the year

Following the completion of the review of the Directors' remuneration policy, a number of changes have been proposed and set out in the policy table above. If the policy is approved at the General Meeting on Thursday 24 September 2015, the main changes to the policy are as follows:

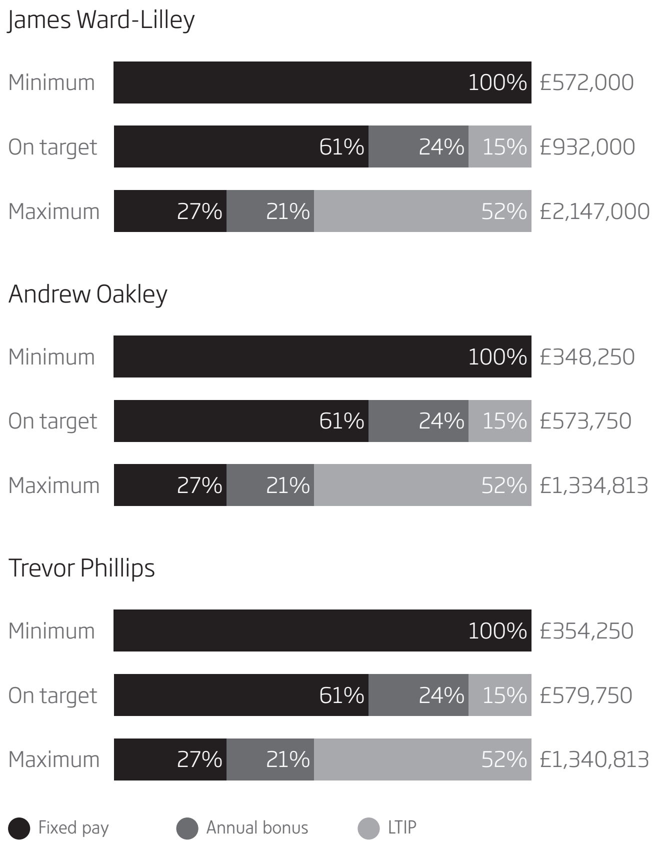
LTIP:

- The overall limit has been increased from 200% to 250% of salary with future awards to Executive Directors normally comprising:
  - a three-year element with annual grants of up to 100% of salary that vest after three years subject to service and performance measured over three financial years, with an additional one-year holding period applying to post-tax vested shares from the date of vesting;
  - a five-year element with annual grants of up to 100% of salary that vest after five years subject to service and performance measured over five financial years; and
  - an additional "kicker" of up to 50% of salary at grant may vest for performance at or above the upper decile after five years (i.e. the maximum potential five-year award for continual exceptional performance will be 150% of salary).
- Performance targets have been made more challenging (most notably for the proposed five-year awards):
  - For the three-year element, 15% of each element vests at median against the peer group, increasing to 100% at upper quartile;
  - For the five-year element, 15% of each element vests at median against the peer group, increasing to 100% up to the upper decile; and
  - The kicker vests in full for performance at or above the upper decile after five years.
- The share ownership guidelines will be increased from 100% to 200% of salary.
- Awards will be subject to claw back where there has been a misstatement of the Company's financial results, an error in assessing the performance conditions to which an award is subject or for any other matter which it deems relevant.
- Non-Executive Directors based in the US who are required to undertake transatlantic travel in order to fulfil their duties will be eligible to be paid an additional allowance.

Remuneration scenarios for Executive Directors

The charts below show hypothetical values of the remuneration package for each Executive Director under three assumed performance scenarios and these scenarios are based upon the remuneration policy set out above. The information presented below uses the level of salary, benefits and pension entitlements for each of the Directors as at 1 April 2015 or at the time of appointment.

Base salaries are: James Ward-Lilley £450,000 (effective from appointment, 1 October 2015), Andrew Oakley £281,875 and Trevor Phillips £281,875. Benefits of £32,000, £10,000 and £16,000, respectively, and a pension allowance of 20% of salary have been assumed.



Assumptions

Below target remuneration receivable – this scenario assumes that there is no annual bonus payment and no awards under the LTIP award vest.

On-target performance – this scenario assumes that the Director receives a 50% bonus payout. It is assumed that LTIP awards vest with a value of 30% of base salary.

Stretch remuneration receivable – this scenario assumes that the Director receives a maximum bonus payout of 100% of their salary. It is assumed that a face value limit of 250% base salary applies to the LTIP award and that 100% of the LTIP granted would ultimately vest.

The actual amounts earned by Executive Directors under these three scenarios will depend on share price performance over the vesting period. For the purpose of these illustrations, any share price appreciation has been ignored. For simplicity, the value of participating in the Company's all-employee share schemes has also been ignored.

Other remuneration policies

Termination and loss of office payments

The Group's policy on remuneration for Executive Directors who leave the Group is consistent with general market practice and it is set out below. The Committee will exercise its discretion when determining amounts that should be paid to leavers, taking into account the facts and circumstances of each case. When calculating termination payments, the Committee will take into account a variety of factors, including individual and Company performance, the length of service of the Executive Director in question and, where appropriate, the obligation for the Executive Director to mitigate loss.

Other remuneration policies continued

Termination and loss of office payments continued

In the case of a "good leaver", the following policy will normally apply:

- notice period of twelve months and pension and contractual benefits, or payment in lieu of notice;
- statutory redundancy payments will be made, as appropriate;
- executives have no entitlement to a bonus payment in the event that they cease to be employed by the Group; however, they may be considered for a pro-rated award by the Committee in good leaver circumstances;
- the rules of the LTIP contain provisions setting out the treatment of awards where a participant ceases to be employed by the Vectura Group. Other than in good leaver circumstances, awards will normally lapse. In the event of a participant's death, retirement, ill health, injury, disability, redundancy, the sale of his employing company or business out of the Vectura Group or for any other reason at the discretion of the Remuneration Committee, awards will not be forfeited but will instead vest on the normal vesting date. Vesting in these circumstances will be subject to the satisfaction of the relevant performance conditions measured at that time and time pro-rating. In exceptional circumstances, the Remuneration Committee may allow the awards to vest on cessation of the participant's employment, subject to the satisfaction of the performance conditions measured at that time and time pro-rating. In either case, the Remuneration Committee can decide to dis-apply time pro-rating if it thinks it is appropriate to do so in the particular circumstances;
- any other share-based entitlements granted to an Executive Director under the Company's share and share option plans will be determined based upon the relevant plan rules; and
- the Committee may also provide for the leaver to be reimbursed for a reasonable level of legal fees in connection with a settlement agreement.

In circumstances in which a leaving Director may be entitled to pursue a legal claim, the Company may negotiate settlement terms if it considers this to be in the best interests of the Company and, with the approval of the Committee on the remuneration elements therein, to enter into a settlement agreement.

Executive Directors' service contracts

It is the Group's policy that Executive Directors should have contracts with an indefinite term and which provide for a maximum period of twelve months' notice.

This applies to the contract of James Ward-Lilley which it is intended will become effective from 1 October 2015, Trevor Phillips' contract, which was amended with effect from 16 July 2012, and to Andrew Oakley's contract, which took effect from 1 January 2015. Executive Directors are subject to re-election at an AGM at intervals of no more than three years.

The Executive Directors may accept outside appointments, with prior Board approval, provided that these opportunities do not negatively impact on their ability to fulfil their duties to the Group. Whether any related fees are retained by the individual or are remitted to the Group will be considered on a case by case basis. None of the Executive Directors currently hold any outside directorships.

Non-Executive Directors' terms of engagement

All Non-Executive Directors have specific terms of engagement which are terminable on not less than three months' notice by either party and six months' notice in the case of the Chairman. The remuneration of Non-Executive Directors is determined by the Board within the limits set by the Articles of Association and based on a review of fees paid to Non-Executive Directors of similar companies. All Non-Executive Directors are subject to re-election at an AGM at intervals of no more than three years.

The dates of appointment of each of the Non-Executive Directors serving at 13 August 2015 are summarised in the table below.

	Date of appointment
J R Brown	13 May 2004
S E Foden	18 January 2007
N W Warner	1 February 2011
B F J Angelici	1 December 2013
P O Andersson	1 April 2015

A Board evaluation has been performed and the results of this exercise confirmed that all Non-Executive Directors were independent, including John Brown who has service greater than nine years. John Brown's independence is considered valid due to the major change in the operating activities of the Group and the refreshment of Non-Executive and Executive members of the Board during the term of his appointment.

Remuneration for new appointments

Where it is necessary to recruit or replace an Executive Director, the Committee has determined that the new Executive Director will receive a compensation package in accordance with the provisions of the policy.

In setting base salary for new Executive Directors, the Committee will consider the existing salary package of the new Director, and the individual's level of experience. In setting the annual performance bonus, the Committee may wish to set different performance metrics (to those of other Executive Directors) in the first year of appointment. Where it is appropriate to offer a below median salary on initial appointment, the Committee will have the discretion to allow phased salary increases over a period of time for a newly appointed Director, even though this may involve increases in excess of inflation and the increases awarded to the wider workforce.

The Committee wishes to retain the ability to make buy-out awards to a new Executive Director, to facilitate the recruitment process. The amount of any such award would not exceed the expected value being forfeited and, to the extent possible, would mirror the form of payment, timing and degree of conditionality, etc. Where awards are granted subject to performance conditions these would be relevant to Vectura Group plc. Any such award would only be made in exceptional circumstances and shareholders would be informed of any such payments at the time of appointment. Share-based awards would be made using the existing share plans where possible although the Committee may also use the flexibility provided under the Listing Rules to make awards without prior shareholder approval.

In respect of internal appointments, any commitments entered into in respect of a prior role, including variable pay elements, may be allowed to pay out according to its prior terms.

For external and internal appointments, the Committee may consider it appropriate to pay reasonable relocation or incidental expenses, including payment of reasonable legal expenses. Tax equalisation may be considered if an Executive Director is adversely affected by taxation due to their employment with the Company.

The terms of appointment for a Non-Executive Director would be in accordance with the policy for remuneration of Non-Executive Directors as set out in the policy table.

Consideration of employment conditions elsewhere in the Group
Whilst the Committee does not consult directly with employees regarding the policy, the Committee considers the general basic salary increase for the broader employee population when determining the annual salary increases and remuneration packages for the Executive Directors. Accordingly, the Committee confirms that the remuneration policy outlined above has been designed with due regard to the policy for remuneration of employees across the Group.

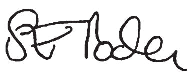
The remuneration of senior executives below Board level is reviewed by the Committee on an annual basis. The remuneration packages of these executives are consistent with the policy outlined above, save that lower bonus percentages and lower LTIP opportunities are applicable. Variable pay elements for senior executives are driven principally by market comparatives and the overall impact of the role the individual holds at Vectura. Long-term incentives are provided to those individuals identified as having significant potential to influence Group performance.

All employees are rewarded with a market-competitive remuneration package that includes certain key benefits such as life assurance, permanent health insurance, private medical insurance, access to the pension scheme, participation in Vectura's all-employee share schemes and eligibility to receive a bonus. The bonus scheme for Directors and employees is designed to reward performance, and all individuals are required to set challenging personal goals.

How shareholders' views are taken into account
The Committee takes an active interest in shareholders' views and voting on the remuneration report. Throughout the year, the Committee has engaged directly with major shareholders and their representative bodies regarding the changes to the policy and the new LTIP being proposed at the General Meeting on Thursday 24 September 2015. As a result of the comments received, a number of changes were made to the proposals, including to the threshold level of vesting for the TSR performance conditions and the level of the share ownership guidelines. The majority of shareholders consulted have been supportive of the changes proposed. The Committee will continue to engage directly with major shareholders and their representative bodies should any material changes to the policy be proposed.

The Committee also considers shareholder feedback received in relation to the AGM each year and guidance from shareholder representative bodies more generally.

On behalf of the Board



Dr Susan Foden
Chair of the Remuneration Committee
21 August 2015

This Appendix describes the features of the Vectura Group 2015 Long-Term Incentive Plan ("the Plan").

Operation

The Remuneration Committee of the Board of Directors of the Company ("the Committee") will supervise the operation of the Plan.

Eligibility

Any employee (including an Executive Director) of the Company and its subsidiaries will be eligible to participate in the Plan at the discretion of the Committee.

Grant of awards

The Committee may grant awards to acquire ordinary shares in the Company ("Shares") within six weeks following the Company's announcement of its results for any period. The Committee may also grant awards within six weeks of shareholder approval of the Plan or at any other time when the Committee considers there are exceptional circumstances which justify the granting of awards. It is intended that, subject to any share dealing restrictions, the first awards will be made shortly following the adoption of the Plan.

The Committee may grant awards as conditional shares or nil (or nominal) cost options. The Committee may also decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash, although it does not currently intend to do so.

Awards may not be granted more than ten years after shareholder approval of the Plan.

No payment is required for the grant of an award. Awards are not transferable, except on death. Awards are not pensionable.

Individual limit

An employee may not receive awards in any financial year over Shares having a market value in excess of 250% of his annual base salary in that financial year.

Vesting of awards

Awards may vest on one or more vesting dates. On or before the grant date, the Committee will determine the vesting date or dates of an award and the proportions in which the award (or, if there is more than one vesting date, each tranche of the award) will vest. Awards (or tranches) will vest to the extent that any applicable performance conditions have been satisfied and provided the participant is still employed in the Company's group (although awards may vest as a result of the participant leaving employment in certain circumstances – see 'Leaving employment' below).

The initial awards to be granted to Executive Directors and to members of the Executive Management Team will vest in tranches as set out below, subject to the satisfaction of the performance conditions (described below):

- 40% of the initial awards will vest three years after grant (or on such earlier date as the Committee specifies if the grant is delayed due to share dealing restrictions) ("Tranche 1"); and
- 60% of the initial awards will vest five years after grant (or on such earlier date as the Committee specifies if the grant is delayed due to share dealing restrictions). This part of the initial awards is split into two tranches – one over 40% of the initial awards ("Tranche 2") and the other over 20% of the initial awards ("Tranche 3").

On vesting, awards in the form of nil (or nominal) cost options will normally be exercisable up to the tenth anniversary of grant unless they lapse earlier.

Performance conditions

The vesting of awards granted to Executive Directors and members of the Executive Management Team will be subject to performance conditions set by the Committee.

The initial awards to be granted under the Plan to Executive Directors and members of the Executive Management Team will be based on the Company's total shareholder return (TSR) performance measured against the FTSE 250 Index and against a sector comparator group over a fixed performance period.

The following TSR performance conditions will apply to Tranche 1, measured over a performance period of three financial years, commencing with the 2015/16 financial year:

- One-half of Tranche 1 will be based on the Company's relative TSR performance compared against that of the constituent companies of the FTSE 250 Index (excluding financial services and real estate sector companies).
- The other half of Tranche 1 will be based on the Company's relative TSR performance compared against the following selected European pharmaceutical companies: Ab Science, Laboratorios Farmaceuticos Rovi, Ablynx, Lonza Group, Actelion, Meda "A", Alk-Abello, Medivir "B", Almirall, Merck Kgaa, Morphosys, Basilea Pharmaceutica "R", Bavarian Nordic, Bb Biotech N, Novozymes, Biotest, Orion "B", Boiron, Qiagen, Btg, Recordati Industria Chimica, Ceyland SA, Richter Gedeon, Chr Hansen Holding, Cosmo Pharmaceuticals, Dechra Pharmaceuticals, Shire, Evotec, Siegfried "R", Faes Farma, Sopharma, Galapagos, Stada Arzneimittel, Genfit, Stallergenes, Genmab, Swedish Orphan Biovitrum, Genus, Thrombogenics, Transgene, Grifols Ord Cl A, Tubize Financiere, Guerbet, Ucb, H Lundbeck, Valneva, Hikma Pharmaceuticals, Vetoquinol, Innate Pharma, Virbac, Ipsen, Zealand Pharma, Krka and Zeltia.

Tranche 1 will vest as follows:

Tranche 1		
Rank of the Company's TSR against the TSR of the members of the relevant comparator group	TSR performance vs FTSE 250 comparator group (% of total number of Shares under Tranche 1 that vests)	TSR performance vs selected European pharmaceuticals companies (% of total number of Shares under Tranche 1 that vests)
Below median	0%	0%
Median	7.5%	7.5%
Between median and upper quartile	Between 7.5% and 50% on a straight-line basis	Between 7.5% and 50% on a straight-line basis
Upper quartile or above	50%	50%

Tranche 2 will be subject to the following TSR performance conditions, measured over a performance period of five financial years, commencing with the 2015/16 financial year:

- One-half of Tranche 2 will be based on the Company's relative TSR performance compared against that of the constituent companies of the FTSE 250 Index (excluding financial services and real estate sector companies).
- The other half of Tranche 2 will be based on the Company's relative TSR performance compared against the same group of selected European pharmaceutical companies listed on page 16.

The extent to which Tranche 2 will vest is as follows:

Tranche 2		
Rank of the Company's TSR against the TSR of the members of the relevant comparator group	TSR performance vs FTSE 250 comparator group (% of total number of Shares under Tranche 2 that vests)	TSR performance vs selected European pharmaceuticals companies (% of total number of Shares under Tranche 2 that vests)
Below median	0%	0%
Median	7.5%	7.5%
Between median and upper decile	Between 7.5% and 50% on a straight-line basis	Between 7.5% and 50% on a straight-line basis

Tranche 3 will be subject to the TSR performance conditions described above over the same five-year performance period but will vest only if the rank of the Company's TSR against the TSR of the members of the relevant comparator group is at upper decile or above.

Irrespective of the extent to which the relative TSR conditions applying to the initial awards have been met, the Committee may decrease the percentage of vesting of the initial award based on a range of factors, including the Company's underlying financial performance, absolute shareholder returns and progress against milestones. Any exercise of this discretion by the Committee will be fully disclosed to shareholders with an explanation of the Committee's reasoning in the Remuneration report for the relevant year.

The Committee can set different performance conditions for Executive Directors and members of the Executive Management Team from those described above for future awards provided that, in the reasonable opinion of the Committee, the new targets are not materially less challenging in the circumstances than those described above. The Committee may set different or no performance conditions for participants who are not Executive Directors or members of the Executive Management Team (taking account of their individual roles and responsibilities).

The Committee may vary any performance conditions applying to existing awards if an event has occurred which causes the Committee to consider that it would be appropriate to amend the performance conditions, provided the Committee considers the varied conditions are fair and reasonable and not materially less challenging than the original conditions would have been but for the event in question.

Dividend equivalents

The Committee may decide that participants will be entitled to receive a payment (in cash and/or Shares) on or shortly following the settlement of their awards, of an amount equivalent to the dividends that would have been paid on those Shares between the time when the awards were granted and the time when they vest (or, where an award is structured as a nil or nominal cost option, the earlier of the exercise date and the date on which any applicable holding period ends – see overleaf). This amount may assume the reinvestment of dividends. Alternatively, participants may have their awards increased as if dividends were paid on the Shares subject to their award and then reinvested in further Shares.

Holding period

Executive Directors and members of the Executive Management Team will normally be required to retain all Shares acquired by them on the vesting or exercise of an award or tranche with a three-year vesting period (less Shares sold to satisfy the participant's tax liability due on the vesting or exercise of the award) until the expiry of the period of one year starting on the date on which the award or tranche vests. For the avoidance of doubt, the holding period will normally only apply to an award (or tranche) with a three-year vesting period.

The holding period shall end early in the event of a change of control of the Company, the death of a participant or on such other date determined by the Committee, and participants will not be restricted or prevented from taking up any shareholder rights that they may have in relation to those Shares during the holding period. The terms and basis upon which Shares must be held during the holding period shall be determined by the Committee from time to time.

Leaving employment

As a general rule, an award will lapse upon a participant ceasing to hold employment or be a director within the Company's group. However, if a participant ceases to be an employee or a director because of his death, ill health, injury, disability, retirement, redundancy, his employing company or the business for which he works being sold out of the Company's group or in other circumstances at the discretion of the Committee, then his award will vest on the date when it would have vested if he had not ceased such employment or office.

The extent to which an award will vest in these situations will depend upon two factors:

(a) the extent to which any performance conditions have been satisfied on the normal vesting date (i.e. at the time they would have been assessed had the participant not ceased employment or office); and

(b) the pro-rating of the award to reflect the reduced period of time between its grant and vesting, although the Committee can decide not to pro-rate an award if it regards it as inappropriate to do so in the particular circumstances.

If a participant ceases to be an employee or director in the Company's group for one of the "good leaver" reasons specified above, the Committee can decide, in exceptional circumstances, that his award will vest on the date of cessation, subject to:

(a) any applicable performance conditions measured at that time; and

(b) pro-rating by reference to the time of cessation as described above.

Corporate events

In the event of a takeover or winding up of the Company (not being an internal corporate reorganisation) all awards will vest early subject to:

(a) the extent that any performance conditions have been satisfied at that time; and

(b) the pro-rating of the awards to reflect the reduced period of time between their grant and vesting, although the Committee can decide not to pro-rate an award if it regards it as inappropriate to do so in the particular circumstances.

In the event of an internal corporate reorganisation, awards will be replaced by equivalent awards over shares in a new holding company unless the Committee decides that awards should vest on the basis which would apply in the case of a takeover.

If a demerger, special dividend or other similar event is proposed which, in the opinion of the Committee, would affect the market price of Shares to a material extent, then the Committee may decide that awards will vest on the basis which would apply in the case of a takeover as described above.

Clawback

Awards may be subject to clawback if, at any time before the later of: (i) the first anniversary of vesting; and (ii) the publication of the Company's first set of audited financial accounts following such vesting, the Committee determines that there has been a material misstatement in the Company's financial statements, an error in assessing any applicable performance conditions or for any other matter which it deems relevant (including if the participant's employment is terminated for gross misconduct).

The Committee may satisfy clawback by recovering and withholding future incentive compensation, including but not limited to the amount of any unpaid bonus, the number of shares under a vested but unexercised award and/or a requirement to make a cash payment.

Participants' rights

Awards of conditional shares and options will not confer any shareholder rights until the awards have vested or the options have been exercised and the participants have received their Shares.

Rights attaching to Shares

Any Shares allotted when an award vests or is exercised will rank equally with Shares then in issue (except for rights arising by reference to a record date prior to their allotment).

Variation of capital

In the event of any variation of the Company's share capital, a demerger, payment of a special dividend or similar event which materially affects the market price of the Shares, the Committee may make such adjustment as it considers appropriate to the number of Shares subject to an award and/or the exercise price payable (if any).

Overall Plan limit

The Plan may operate over new issue Shares, treasury Shares or Shares purchased in the market.

In any ten calendar year period, the Company may not issue (or grant rights to issue) more than:

(a) 10% of the issued ordinary share capital of the Company under the Plan and any other employee share plan adopted by the Company; and

(b) 5% of the issued ordinary share capital of the Company under the Plan and any other executive share plan adopted by the Company.

Treasury shares will count as new issue Shares for the purposes of this limit unless institutional investors decide that they need not count.

Alterations to the Plan

The Committee may, at any time, amend the Plan in any respect, provided that the prior approval of shareholders is obtained for any amendments that are to the advantage of participants in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of Shares or the transfer of treasury shares, the basis for determining a participant's entitlement to, and the terms of, the Shares or cash to be acquired and the adjustment of awards.

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to benefit the administration of the Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Company's group. Shareholder approval will also not be required for any amendments to any performance condition applying to an award; however, any amendments to a performance condition must be made within the parameters referred to under the "Performance conditions" section of this summary.

Overseas plans

The shareholder resolution to approve the Plan will allow the Board to establish further plans for overseas territories. Any such plan will be similar to the Plan, but modified to take account of local tax, exchange control or securities laws. Any Shares made available under such further plans will count against the limits on individual and overall participation in the Plan.

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