

Vectura Group plc

AUDIT COMMITTEE TERMS OF REFERENCE

1. COMPOSITION AND MEETINGS OF AUDIT COMMITTEE

- 1.1 The Audit Committee comprises not less than three independent non-executive directors of the Company, and, where possible, it should include one member of the remuneration committee. Members of the Audit Committee should be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the chair of the Audit Committee.
- 1.2 All members of the Audit Committee shall have the skills and experience appropriate for membership and at least one member shall have recent and relevant financial experience with competence in accounting and/or auditing, such as a professional qualification from one of the professional accountancy bodies. The Audit Committee as a whole shall have competence relevant to the sector in which the Company operates.
- 1.3 The Chair of the Company shall not be a member of the Audit Committee.
- 1.4 The chair of the Audit Committee shall be appointed by the Board and shall be a non-executive director. In the absence of the chair of the Audit Committee and/or appointed deputy at a meeting of the Audit Committee, the remaining members shall elect one of themselves to chair the meeting.
- 1.5 If any member of the Audit Committee is unable to act for any reason, the chair of the Audit Committee may appoint any other independent non-executive director of the Company to act as his alternate.
- 1.6 The Company secretary (or his or her nominee) shall be the secretary of the Audit Committee and will ensure that the Audit Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.
- 1.7 The quorum for meetings of the Audit Committee is any two of its members.
- 1.8 Only members of the Audit Committee and those entitled to attend as an observer have the right to attend meetings of the Audit Committee. However, the finance director, and external audit lead partner will be invited to attend meetings on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 1.9 Meetings of the Audit Committee are to be held at least three times a year at appropriate times in the financial reporting and audit cycle and otherwise as required. Any of the Audit Committee members, the finance director, head of internal audit (if appointed) or the Company's external auditor may request a meeting of the Audit Committee if he or she considers it necessary, to be arranged by the secretary.
- 1.10 The chair of the Audit Committee, and to a lesser extent the other members of the Audit Committee, will maintain a dialogue outside the formal meeting dialogue with key individuals involved in the Company's governance, including the Chair of the Company, the chief executive, the finance director and the external audit lead partner.

- 1.11 Meetings of the Audit Committee shall be convened by the secretary of the Audit Committee at the request of any of its members or at the request of the external audit lead partner or head of internal audit if they consider it necessary. Unless otherwise agreed by the Audit Committee, notice of each meeting, confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Audit Committee no later than five working days before the date of the meeting. Supporting papers shall be sent to the members of the Audit Committee at the same time. Notices, agendas and supporting papers can be sent in electronic form where the recipient has agreed to received documents in such a way.

2. DUTIES OF THE AUDIT COMMITTEE

- 2.1 The duties of the Audit Committee are:

External audit

- 2.1.1 in respect of the external audit:

- (a) to have prime responsibility for the appointment of the external auditor. This includes negotiating the fee and scope of the audit, initiating a tender process, influencing the appointment of an engagement partner and making formal recommendations to the Board on the appointment, reappointment and removal of the external auditor;
- (b) to ensure that at least once every ten years the audit services contract is put out to tender to enable the Audit Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender develop and oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process;
- (c) to oversee the relationship with the external auditor including (but not limited to):
 - (i) considering and approving the external auditor's remuneration, including fees for audit or non-audit services and ensuring that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
 - (ii) approval of the external auditor's terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (iii) discussing, before the audit starts, the nature and scope of the audit;
 - (iv) assessing annually the external auditor's independence and objectivity taking into account relevant UK law, regulation, other ethical and professional requirements and the Ethical Standards for Auditors (including considering the annual disclosure from the statutory auditor and any threats to the

auditor's independence and the safeguards applied to mitigate those threats, including the provision of any non-audit services);

- (v) assessing annually all relationships between the Company and the external auditor, including throughout the Company's group and the external auditor's network firms, and satisfying itself that there are no relationships between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
 - (vi) monitoring the external auditor's processes for maintaining independence, its compliance with relevant UK law, regulation, other ethical and professional requirements and the Ethical Standard for Auditors (including the guidance on rotation of audit partner and staff);
 - (vii) the level of fees paid by the Company to the external auditor compared to the overall fee income of the firm, office and partner and assessing these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standards for Auditors;
 - (viii) assessing annually the external auditor's qualifications, expertise and resources and independence and the effectiveness of the external audit process which shall include a report from the external auditor on their own internal quality procedures;
 - (ix) evaluating the risks to the quality and effectiveness of the financial reporting process, especially in light of the auditor's communications with the Audit Committee; and
 - (x) seeking to ensure co-ordination of the external audit function with the activities of the internal audit function, where an internal audit function exists;
- (d) to 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 Audit Committee shall meet the external auditor at least once a year, without management being present, to discuss its remit and any issues arising from the audit;
- (e) to review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
- (i) a discussion of any major issues which arose during the audit;
 - (ii) an explanation by the external auditor of how the risks to audit quality were addressed;
 - (iii) a review of areas of significant judgement and a review of key accounting and audit judgements;

- (iv) a discussion with the external auditor regarding their perception of their interactions with senior management and other members of the finance team;
 - (v) level of errors identified during the audit; and
 - (vi) the effectiveness of the audit process;
- (f) to ask the external auditor to explain the risks to audit quality that they identified and how these have been addressed;
- (g) to discuss with the external auditor the key audit firm and network level controls the external auditor relied on to address the identified risks to audit quality and enquire about the findings from internal and external inspections of their audit and their audit firm;
- (h) to keep under review the scope and results of the audit, the audit fee and its cost effectiveness, taking into consideration relevant professional and regulatory requirements;
- (i) to review:
- (i) any representation letter(s) requested by the external auditor before they are signed by management, giving particular consideration to matters where representation has been requested that relate to non-standard issues; and
 - (ii) the management letter and management's response to the external auditor's findings and recommendations;
- (j) to develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the external auditor, including approval of non-audit services by the Audit and Risk Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:
- (i) threats to independence and objectivity of the external auditor and any safeguards in place;
 - (ii) the nature of the non-audit services;
 - (iii) whether the external audit firm is the most suitable supplier of the non-audit service;
 - (iv) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
 - (v) the criteria governing compensation;

- (k) to agree with the Board a policy on the employment of former employees of the Company's external auditor taking into account the Ethical Standard for Auditors and legal requirements, then monitoring the implementation of this policy; and
- (l) if an external auditor resigns, to investigate the issues leading to this and decide whether any action is required;

Audit plan

- 2.1.2 to review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement having regard to the seniority, expertise and experience of the audit team;
- 2.1.3 to review whether the auditor has met the agreed audit plan and understand the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditor to address those risks;

Financial reporting

- 2.1.4 to monitor the integrity of the financial statements of the Company including its half-year financial statements, annual report and accounts, interim management statements, preliminary announcements and any other formal statements concerning the Company's financial performance, and review and report to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the external auditor. The Audit Committee shall also review the strategic report, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of price sensitive information;
- 2.1.5 to review and challenge, where necessary:
 - (a) the application, consistency of, and any changes to, significant accounting policies;
 - (b) the methods used to account for significant or unusual transactions where different approaches are possible;
 - (c) whether the Company has adopted appropriate accounting policies and standards and made appropriate estimates and judgements, taking into account the views of the external auditor on the financial statements;
 - (d) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
 - (e) all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management; and
 - (f) where the Audit and Risk Committee is not satisfied with any aspect of the proposed financial reporting by the Company, to report its views to the Board;

- 2.1.6 to review any other statements requiring Board approval which contain financial information first, where carrying out a review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules, Disclosure Guidance and Transparency Rules sourcebook or the EU Market Abuse Regulation;
- 2.1.7 to submit the documents referred to in paragraph 2.1.4 to the Board for its approval and to determine what information should be brought to the Board's attention in connection with that submission;

Narrative reporting

- 2.1.8 where requested by the Board, to review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy and whether it informs the Board's statement in the annual report on these matters that is required under the UK Corporate Governance Code;

Internal controls and risk management systems

- 2.1.9 to assist the Board with the definition and execution of a risk management strategy, risk policies and current risk exposures, including any prudential risks;
- 2.1.10 in support of the Board's risk management strategy, to:
 - (a) ensure that the Audit Committee delivers effective monitoring of risk management systems and risk appetite across the Company by working closely at all times with the Compliance Officer;
 - (b) review the Company's compliance system of corporate standards and procedures and assess the effectiveness of these standards and procedures;
 - (c) assess the policies and systems within the Company for ensuring compliance with safety and environmental regulatory requirements;
 - (d) assess the performance of the Company with regard to the impact of safety and environmental decisions and actions upon employees, communities, other third parties and the overall reputation of the Company;
 - (e) evaluate and oversee, on behalf of the Board, the quality and integrity of any reporting to external stakeholders concerning safety and environmental issues;
 - (f) ensure the adequacy of insurance coverage for the Company;
 - (g) maintain a risk register which will identify all material risks, evaluate any financial impact of such risks, identify actions to mitigate or avoid any potential impact from such risks, and, going forward, monitor and review the risks; and

- (h) review the results of independent audits of the Company's performance in regard to safety and environmental matters, review any strategies and action plans developed by management in response to issues raised and, where appropriate, make recommendations to the Board concerning the same;
- 2.1.11 to assist the Board with monitoring and reviewing the Group's risk management and internal control systems on an on-going basis, including monitoring material financial, operational and compliance controls;
- 2.1.12 to assist the Board with its annual review of, and report on, the effectiveness of the Group's risk management and internal control systems and the viability statement, including meeting at least once annually with the head of internal audit without senior management present, to discuss the internal audit, control and risk management functions (other than in relation to those matters for which the Audit and Risk Committee is responsible), and to review the Company's statement on internal control prior to endorsement by the Board;
- 2.1.13 to assist the Board to draw on the results of the on-going monitoring process to obtain sound, appropriately documented evidence to support the relevant statements and confirmations required from the Board in the annual report (and, in the case of (c) below, the half-yearly financial statements) including:
 - (a) that the Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
 - (b) how the Board has assessed the prospects of the Company, over what period it has done so and why it considers that period to be appropriate;
 - (c) whether the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment; and
 - (d) the appropriateness of adopting the going concern basis of accounting in the financial statements and whether there are any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of the approval of the financial statements;
- 2.1.14 to advise the Board on the Company's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment;
- 2.1.15 to oversee and advise the Board on the current risk exposures of the Group and future risk strategy and the steps taken to manage those risks;
- 2.1.16 to review the Company's capability to identify and manage new risk types;

Internal audit

- 2.1.17 where an internal audit function exists:

- (a) to ensure that there is open communication between the different functions and that the internal audit function evaluates the effectiveness of the risk, compliance and finance functions as part of its internal audit plan. The Audit and Risk Committee should ensure that the function has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors;
- (b) to approve the appointment and removal of the head of the internal audit function. Internal audit should have access to the Audit and Risk Committee and Board chair where necessary and the Audit and Risk Committee should ensure internal audit has a reporting line which enables it to be independent of the executive and so able to exercise independent judgement;
- (c) to review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work, and annually approve the internal audit charter ensuring it is appropriate for the current needs of the organisation;
- (d) to review and approve the annual internal audit plan to ensure it is aligned to the key notes of the business, and receive regular reports on work carried out;
- (e) to monitor and assess the role and effectiveness of the internal audit function in the overall context of the Company's risk management system and the work of compliance, finance and the external auditor;
- (f) to consider whether an independent third party review of processes is appropriate; and
- (g) to carry out an annual assessment of the effectiveness of the internal audit function and as part of this assessment: meet with the head of internal audit without the presence of management to discuss the effectiveness of the function; review and assess the annual internal audit work plan; receive a report on the results of the internal auditor's work; determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;

2.1.18 where external auditors are being considered to undertake aspects of the internal audit function, to consider the effect this may have on the effectiveness of the Company's overall arrangements for internal control, the effect on the objectivity and independence of the external auditor and the internal audit function and investor perceptions in this regard. Investor perceptions are likely to be influenced by:

- (a) the reporting in the annual report on the nature and extent of the work being performed by the external auditor; and
- (b) whether, in the absence of internal audit work, the audit committee is wholly reliant on the views of the external auditor about the effectiveness of its system of controls relating to core activities and significant locations;

Whistleblowing, compliance and fraud

- 2.1.19 to review the adequacy and security of the Company's procedures by which employees and contractors may, in confidence, raise concerns about possible wrongdoing in matters of financial reporting or other matters. The Audit Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- 2.1.20 to review the Company's procedures for preventing and detecting fraud;
- 2.1.21 to review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
- 2.1.22 [to review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the Company's anti-money laundering systems and controls;] and
- 2.1.23 [to review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Company's compliance function;]

Recommendations, reports and actions

- 2.1.24 to have the chair of the Audit Committee report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and also report formally to the Board on how it has discharged its duties. This report shall include:
 - (a) the significant issues that it considered in relation to the financial statements (required under paragraph 2.1.4) and how these were addressed;
 - (b) its assessment of the effectiveness of the external audit process (required under paragraph 2.1.1(c)(viii)), the approach taken to the appointment or reappointment of the external auditor, the length of tenure of the audit firm, when a tender was last conducted and advance notice of any retendering plans;
 - (c) the results of its risk management and internal compliance and control systems; and
 - (d) any other issues on which the Board has requested Audit and Risk Committee's opinion;

- 2.1.25 in the compiling the reports referred to in paras. 2.1.24(a) and 2.1.24(d), to exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but include at least those matters that have informed the Board's assessment of whether the Company is a going concern and the inputs to the Board's viability statement. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information;
- 2.1.26 to consider the major findings of internal investigations and management's response;
- 2.1.27 to make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed;
- 2.1.28 to prepare a report to shareholders on its activities and the Company's risk management and strategy to be included in the Company's annual report. The report should include an explanation of how the Audit Committee has addressed the effectiveness of the external audit process; the significant issues that the Audit Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor; and all other information requirements set out in the UK Corporate Governance Code;
- 2.1.29 to review the annual financial statements of the pension funds that were not reviewed by the Board as a whole;
- 2.1.30 to oversee any investigation of activities which are within its terms of reference [and act for internal purposes as a court of the last resort];
- 2.1.31 to, 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 for Board approval; and
- 2.1.32 to consider other matters as referred to the Audit Committee by the Board.

3. AUDIT COMMITTEE CHAIR

3.1 The Audit Committee chair shall:

- 3.1.1 report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities; and
- 3.1.2 attend the Company's annual general meeting prepared to answer shareholders' questions.

4. AUDIT COMMITTEE SECRETARY

4.1 The Audit Committee secretary shall:

- 4.1.1 minute the proceedings and resolutions of all meetings of the Audit Committee, including recording the names of those present and in attendance;

- 4.1.2 ascertain, at the beginning of each meeting the existence of any conflicts of interest and minute them accordingly; and
- 4.1.3 agree the draft minutes of Audit Committee meetings with the Audit Committee chair and then promptly circulate such minutes to all members of the Audit Committee and, once agreed, to all members of the Board, unless a conflict of interest exists or it would be inappropriate to do so in the opinion of the Audit Committee chair.

5. AUTHORISATIONS

5.1 The Audit Committee is authorised by the Board:

- 5.1.1 to undertake and investigate any activity within its terms of reference;
- 5.1.2 to obtain any information it requires from any employee of a Group Company and to call any employee to be questioned at a meeting of the Audit Committee as and when required (and all employees are directed to co-operate with any request made by the Audit Committee);
- 5.1.3 to obtain, at the Company's expense, such independent, legal, accounting or other professional advice on any matter it deems necessary;
- 5.1.4 to secure the attendance of other persons at its meetings if it considers this necessary; and
- 5.1.5 [to have the right to publish in the Company's annual report details of any issues that cannot be resolved between the Audit Committee and the Board.]

6. OTHER MATTERS

6.1 The Audit Committee shall:

- 6.1.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 6.1.2 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;
- 6.1.3 give due consideration to relevant laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the Financial Conduct Authority's Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate; and
- 6.1.4 arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board.