

## **CIRCASSIA PHARMACEUTICALS PLC**

(the **Company**)

### **TERMS OF REFERENCE FOR THE REMUNERATION COMMITTEE**

(approved at a meeting of the board of directors of the Company held on 21 February 2014)

#### **Constitution**

1. It is resolved that a committee of the board be established, to be known as the remuneration committee.

#### **Membership**

2. The remuneration committee members shall be appointed by the board, on the recommendation of the nomination committee in consultation with the chairman of the remuneration committee, in accordance with the Company's articles of association.
3. The remuneration committee shall comprise a minimum of three members, all of whom shall be independent non-executive directors. The chairman of the board may also serve on the remuneration committee as an additional member if he or she was considered independent on appointment as chairman.
4. The first members of the remuneration committee shall be Jean Jacques Garaud, Tim Corn and Paul Edick.
5. The chairman of the remuneration committee shall be an independent non-executive director appointed by the board on the recommendation of the nomination committee from among the members of the remuneration committee and shall be Jean Jacques Garaud at the date of approval of these terms of reference. In the absence of the chairman of the remuneration committee (and/or an appointed alternate member), the members present at any meeting of the committee shall elect one of their number to chair the meeting who would qualify under these terms of reference to be appointed to that position by the board. The chairman of the board shall not be chairman of the remuneration committee.
6. The chairman and members shall be listed each year in the annual report of the Company.
7. Each member shall hold office as a committee member for a period of up to three years, which may be extended by no more than two additional periods of up to three years, provided the member still meets the criteria for membership of the remuneration committee and subject to the articles of association and re-election by shareholders.
8. The current members of the remuneration committee and their dates of appointments are listed below.

Jean Jacques Garaud	21 February 2014
Tim Corn	21 February 2014
Lota Zoth	27 February 2015

9. If any member of the remuneration committee is unable to act for any reason, the chairman of the remuneration committee may appoint another independent non-executive director of the Company or chairman of the board agreed by the other members of the remuneration committee, to act as that member's alternate.
10. The company secretary or his or her nominee shall be the secretary of the remuneration committee.
11. The secretary of the remuneration committee shall forward to all members of the remuneration committee all information and papers in a timely manner to enable full and proper consideration of any issues.

### **Meetings**

12. The remuneration committee shall meet at least three times each year prior to the company's salary review date and otherwise as the chairman of the remuneration committee shall require.
13. No one other than the chairman and members of the remuneration committee is entitled to be present at a meeting of the remuneration committee. The chairman and members of the remuneration committee shall, however, have the discretion to decide who else shall be invited to attend for all or part of any meeting, as and when appropriate.
14. The chairman of the company and/or chief executive shall be invited by the remuneration committee to attend meetings to discuss the performance of the other executive directors and to make proposals as necessary. The remuneration committee may consult the other non-executive directors in its evaluation of the chief executive.
15. No director or manager shall be present at any meeting of the remuneration committee when his own remuneration is being discussed. No director shall be involved in any decision as to his own remuneration.
16. The quorum for meetings of the remuneration committee shall be two members present throughout the meeting in person or by telephone. A duly convened meeting of the remuneration committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the remuneration committee.
17. Meetings of the remuneration committee shall be called by the secretary of the remuneration committee at the request of any of its members.
18. Unless otherwise agreed, notice of each meeting of the remuneration committee confirming the venue, date and time together with an agenda of items to be discussed and supporting papers where appropriate shall be forwarded to each member of the remuneration committee and to each other person invited to attend,

no later than five working days prior to the date of the meeting. All reasonable efforts shall be made to give notice of meetings of the remuneration committee to all members of it and to arrange such meetings so that members are able to attend them.

19. A member of the remuneration committee may participate in a committee meeting by telephone.
20. In the event of an equality of votes, the chairman of the remuneration committee shall have a casting vote.
21. The secretary of the remuneration committee shall prepare minutes of any meeting of the remuneration committee, which shall include names of those present and in attendance and, after approval and signature by the chairman of the remuneration committee, shall circulate the minutes to all members of the remuneration committee and to the chairman of the board and, once agreed, to all other members of the board, unless it would be inappropriate to do so.
22. The chairman of the remuneration committee shall be available to answer questions about the committee's activities at the annual general meeting of the Company. All members of the remuneration committee shall also attend the annual general meeting.

#### **Duties**

23. The remuneration committee should carry out the duties set out below, for the parent company and all subsidiary undertakings, as appropriate.
24. The remuneration committee shall consult the chairman of the Company and/or chief executive about its proposals relating to the remuneration of other executive directors. It shall also consult the senior independent director and other non-executive directors, who are not members of the remuneration committee, about its proposals relating to the remuneration of the chairman of the board.
25. The duties of the remuneration committee shall be to:
  - (a) make recommendations to the board regarding the Company's policy relating to executive remuneration (within the limits set out in the articles of association) and its cost giving full consideration to the matters set out in Section D (headed "Remuneration") of, and Schedule A to, the Corporate Governance Code and all relevant legal and regulatory requirements; determine on the board's behalf the entire individual remuneration packages for each executive director, the chairman and the company secretary, including pension rights and any compensation payments, and to recommend and monitor the level and structure of remuneration for each senior manager, giving full consideration to the matters set out in Section D (headed "Remuneration") of, and Schedule A to, the Corporate Governance Code, including approving the following in respect of each executive director:
    - (i) a service contract;

- (ii) any benefit, and/or pension and/or incentive scheme entitlement;
- (iii) any other bonuses, fees and expenses claims policies; and
- (iv) any compensation payable (including pension contributions) on the termination of a service contract.

The remuneration of non-executive directors shall be a matter for the chairman and executive members of the board.

- (b) The remuneration committee will also ensure that the remuneration of each executive director (including any payments for loss of office) is consistent with the most recent remuneration policy to have been approved by shareholders in accordance with the Companies Act 2006 (the **Approved Policy**).
- (c) In relation to each of the following cash bonus and equity incentive plans listed below:
  - (i) the Circassia Pharmaceuticals plc Performance Share Plan;
  - (ii) the Circassia Pharmaceuticals plc Executive Share Option Plans;
  - (iii) such other equity plan as may be adopted by the Company;
  - (iv) such annual bonus plan as may be adopted by the Company(the **Plans**) to:
  - (i) determine policy for the grant of awards/options/any pension arrangements to executive directors and senior executives of Circassia Pharmaceuticals plc, to ensure that they are provided with appropriate incentives consistent with the Company's policy as stated in the minutes to the Remuneration Committee meeting on 10 January 2014;
  - (ii) approve all and any awards/options to executive directors and senior executives, including consideration of the quantum of grants and vesting schedules;
  - (iii) approve the design of and set appropriate performance targets in connection with the awards and options, including any performance-related pay schemes and approve the total annual payments under such schemes;
  - (iv) determine, in conjunction with the Company's advisers, whether such performance targets have been satisfied;
  - (v) approve any amendments to the Plans prior to obtaining any necessary shareholder approval; and

- (vi) exercise any discretion specified in the rules of the Plans and generally oversee the administration of Plans offered to executive directors and/or other senior executives;
- (vii) determine each year whether any awards will be made under the Plans and, if so, the overall amount of such awards, the individual awards to executive directors, company secretary and other senior executives and the performance targets to be used;
- (d) consider and review the terms of any new equity plans or cash bonus plans for executive directors and/or senior executives;
- (e) regularly review the ongoing appropriateness and relevance of the remuneration policies and Approved Policy to ensure that reward policies across the Company work:
  - (A) to ensure that remuneration policies attract, retain and motivate executive directors of required suitability to run the Company successfully, without remuneration packages offering any more than is necessary;
  - (B) to ensure, where possible, that a significant proportion of the remuneration of each executive director is structured to link remuneration to Company and individual performance and designed to promote the long-term success of the Company;
  - (C) to consider and promote the Company's long-term strategic goals, where appropriate;
- (f) consider whether or not and to what extent the views of employees and shareholders should be obtained in relation to the formulation of the executive directors' remuneration policy;
- (g) advise on any major changes in employee benefit structures throughout the Company or group which relate to executive directors and senior executives;
- (h) approve the remuneration packages of newly appointed executive directors and liaise with the nomination committee to ensure that any such remuneration packages are within the Approved Policy; be aware of pay and employment conditions of employees within the Company's group and consider how such pay and employment conditions should be taken into account when determining directors' remuneration;
- (i) approve any compensation packages or arrangements following the severance of any executive director's contract, to ensure that it falls within the Approved Policy and that the executive director is treated fairly but that failure is not rewarded and the duty of the executive director to mitigate any loss suffered by him/her as a result of the severance is fully recognised;
- (j) consider whether the Company's remuneration strategy is compatible with the Company's risk management policies/liaise with the board and other

committees as appropriate to ensure that risk is taken into account when determining the remuneration policy;

- (k) obtain reliable, up-to-date information about remuneration in other companies of comparable scale and complexity;
- (l) establish the selection criteria, select and appoint consultants in respect of executive director remuneration and make the terms of reference of such consultants, together with a statement of whether they have any other connection with the company, available (by placing it on the company's website and to consider how such advice is independent and objective);
- (m) consider the relative importance of the Company's expenditure on pay compared to the Company's profits, dividends and tax paid;
- (n) make available these terms of reference, explaining its role and the authority delegated to it by the board by including the information on the Company's website; and
- (o) consider any other matters as referred to the remuneration committee by the board.

26. The remuneration committee is authorised by the board to investigate any activity within the scope of its duties.

### **Reporting responsibilities**

27. The chairman of the remuneration committee shall report to the board on its proceedings after each meeting on all matters within its duties and responsibilities.

28. The remuneration committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.

29. The remuneration committee shall assist the board in preparing an annual remuneration report to shareholders for the purposes of, and in accordance with, sections 420 and 421 of the Companies Act 2006 and Schedule 8 to the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, LR 9.8.8.R of the Listing Rules of the Financial Conduct Authority and the provisions of the Corporate Governance Code.

30. The remuneration committee shall produce:

- (i) an annual report setting out the Company's remuneration policies and practices, and its duties and activities during the year; and
- (ii) a policy report in respect of directors' remuneration at least every three years
- (iii) which will form part of the Company's annual report and accounts and to be approved by shareholders as required under the Companies Act 2006.

31. The remuneration committee shall consider and make recommendations to the board concerning disclosures of details of remuneration packages and structures in addition to those required by law, the UK Listing Authority or the London Stock Exchange.
32. If the remuneration committee appointed remuneration consultants, the annual remuneration report shall identify such remuneration consultants and state whether they have any other connection with the Company.
33. The chairman of the remuneration committee shall ensure that the Company maintains contact with its principle shareholders about remuneration.

### **Performance, resources and training**

34. The remuneration committee shall have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required.
35. The remuneration committee is authorised by the board to obtain inside and outside legal or other professional advice including subject to any budgetary restraints imposed by the board information about remuneration practices elsewhere, at the Company's expense. The remuneration committee may, if it thinks fit, supply to others information about the Company's remuneration practices and, secure the attendance at meetings of outsiders with relevant experience and expertise.
36. The remuneration committee is authorised to seek any information it requires from any employee of the Company or group Company in order to perform its duties.
37. The remuneration committee shall 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.
38. The remuneration committee shall give due consideration to laws and regulations of the Financial Conduct Authority's Listing, Prospectus and Disclosure and Transparency Rules as well as guidelines published by the Association of British Insurers and the National Association of Pension Funds and any other applicable rules, as appropriate.
39. The remuneration committee shall 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 for approval.