

VERONA PHARMA PLC
(the “Company”)

REMUNERATION COMMITTEE
TERMS OF REFERENCE

CONSTITUTION

- 1** The board hereby resolves to establish a committee of the board to be known as the remuneration committee (the “Remuneration Committee”):
- (a) to ensure that the Company's directors and senior executives are fairly rewarded for their individual contributions to the Company's overall performance by determining their pay and perquisites;
 - (b) to demonstrate to all shareholders that the remuneration of the senior executive members of the Company is set out by a committee of the board who will give due regard to the interests of the shareholders and to the financial and commercial health of the Company; and
 - (c) to administer the Company’s share option plans and other share award schemes in place from time to time and approve grants of options or other share awards to directors, employees and consultants under such plans and schemes.

MEMBERSHIP

- 2** The Remuneration Committee shall be appointed by the board, shall comprise at least two members, a majority of which must be independent non-executive directors. The chairman of the Remuneration Committee shall be appointed by the board.
- 3** Members of the Remuneration Committee must make any personal financial interests known to the Remuneration Committee as soon as any such interest arises.
- 4** Members of the Remuneration Committee shall serve on the Remuneration Committee for periods of up to 3 years, which may be extended for two further three year periods provided the director remains independent. The membership of the Remuneration Committee shall be set out in the annual report of the Company.
- 5** A quorum shall consist of two members.

ATTENDANCE AT MEETINGS

- 6** The chairman of the Company and/or the chief executive should be invited to attend meetings. Other non-executive directors may attend. The Remuneration Committee may nominate one of its members, the company secretary or such other person as it deems appropriate to be the secretary of meetings.

FREQUENCY

- 7** Meetings shall be held not less than twice a year and wherever the Remuneration Committee sees fit. The external Auditors may request a meeting if they consider that one is necessary.

NOTICE OF MEETINGS

- 8** Meetings of the Remuneration Committee shall be summoned at the request of any of its members.

- 9 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of matters to be discussed shall be forwarded to each member and other person required to attend no later than 5 days before the date of the meeting.

AUTHORITY

- 10 The Remuneration Committee is authorised by the board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee in order to perform its duties.
- 11 The Remuneration Committee is authorised by the board to obtain, at the Company's expense, outside legal or other independent professional advice on any matters within its terms of reference and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
- 12 The Remuneration Committee shall:
- (a) give due consideration to applicable laws and regulations, the provisions of the Combined Code, the QCA Corporate Governance Guidelines on AIM companies and the requirements of the London Stock Exchange's rules for AIM companies as appropriate; and
 - (b) at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval.

VOTING ARRANGEMENTS

- 13 Each member of the Remuneration Committee shall have one vote which may be cast on matters considered at the meeting. Votes may only be cast by members attending the meeting.
- 14 If a matter considered by the Remuneration Committee is one in which a member has a personal interest (either directly or indirectly), that member shall not be permitted to vote at the meeting.
- 15 Save where he has a personal interest, the chairman will have the casting vote.

DUTIES AND TERMS OF REFERENCE

- 16 The Remuneration Committee shall:
- (a) determine and agree with the board the framework for the remuneration of the Company's chief executive, chairman, the executive directors, the company secretary and such other members of the Company's management as it is designated to consider. No director or manager shall be involved in any decisions as to their own remuneration. Within the terms of the agreed policy and in consultation with the chairman and/or chief executive as appropriate, the Remuneration Committee shall determine the total individual remuneration package of each executive director and member of management including bonuses, incentive payments and share options and other share awards;
 - (b) review the ongoing appropriateness and relevance of the remuneration policy;
 - (c) approve all service contracts between the Company and its directors or between the Company and any subsidiary and any such senior executive;
 - (d) determine the policy for, and scope of, pension arrangements for each executive director and other senior executives;

- (e) be responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Remuneration Committee and, when considered necessary, to obtain reliable, up-to-date information about remuneration in other companies;
- (f) make a report each year to the shareholders on behalf of the board, which report should form part of, or be annexed to, the Company's annual report and accounts and which, in such manner as the Remuneration Committee may decide, address the following:
 - (i) the report should be the main vehicle through which the Company accounts to shareholders for directors' remuneration. It should, to the extent required to be disclosed by the Companies Act and the AIM Rules, include for each director by name the following:
 - (A) full details of all elements in the remuneration package, such as basic salary, benefits in kind, annual bonuses and long-term incentive schemes including share options, and the extent to which performance criteria are being met;
 - (B) share options and pension entitlements, calculated on a basis to be recommended by the Faculty of Actuaries and the Institute of Actuaries;
 - (C) if annual bonus or benefits in kind are pensionable the report should explain and justify;
 - (ii) the report should also set out, to the extent required to be disclosed by the Companies Act and the AIM Rules, the Company's general policy on executive remuneration, including levels, individual components, performance criteria and measurement, pension provision, contracts of service, compensation commitments on early termination, any special arrangements made and material changes made during the year;
 - (iii) the report should state that, in framing its remuneration policy, the Remuneration Committee has given full consideration to the best practice provisions set out in paragraph 17 and should list the members of the Remuneration Committee;
 - (iv) any service contracts which provide for, or imply, notice periods in excess of one year (or any provisions for predetermined compensation on termination which exceed one year's salary and benefits) should be disclosed in the report and the reasons for the longer notice periods explained; and
 - (v) to the extent required to be disclosed by the Companies Act and the AIM Rules, the report should take account of or note shareholdings and other relevant business interests and activities of the directors.

REMUNERATION POLICY

17 In fulfilling its duties, the Remuneration Committee shall take account of the following:

- (a) the Remuneration Committee must provide the packages needed to attract, retain and motivate directors and senior executives of the quality required but should avoid paying more than is necessary for this purpose;
- (b) the Remuneration Committee should judge where to position their Company relative to other companies. It should be aware what other comparable companies are paying and should take account of relative performance;

- (c) the Remuneration Committee should be sensitive to the wider scene, including pay and employment conditions elsewhere in the Company, especially when determining annual salary increases;
- (d) the Remuneration Committee should oversee any major changes in employee benefits structures throughout the Company;
- (e) the performance-related elements of remuneration should be designed to align the interests of directors and senior executives and shareholders and to give directors and senior executives keen incentives to perform at the highest levels;
- (f) the Remuneration Committee should approve the design of, and determine targets for, any performance related pay schemes (including share incentive plans) and approve the total annual payments made under such schemes;
- (g) executive share options should never be issued at a discount;
- (h) the Remuneration Committee should consider the pension consequences and associated costs to the Company of basic salary increases, especially for directors and senior executives close to retirement; and
- (i) in general, neither annual bonuses nor benefits in kind should be pensionable.

SERVICE CONTRACTS AND COMPENSATION

- 18** The Remuneration Committee should consider what compensation commitments the contracts of service with directors and senior executives, if any, would entail in the event of early termination, particularly for unsatisfactory performance, taking into account the following:
- (a) there is a strong case for setting notice or contract periods at, or reducing them to, one year or less. The Remuneration Committee should, however, be sensitive and flexible, especially over timing. In some cases notice or contract periods of up to two years may be acceptable. Longer periods should be avoided wherever possible; and
 - (b) within the legal constraints, the Remuneration Committee should tailor their approach in individual early termination cases to the wide variety of circumstances. The broad aim should be to avoid rewarding poor performance while dealing fairly with cases where departure is not due to poor performance.

REPORTING PROCEDURES

- 19** The secretary shall circulate the minutes of meetings of the Remuneration Committee to all members of the board. The Remuneration Committee may, in addition, at any time request a full meeting of the board at which its conclusions shall be reported.
- 20** 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.
- 21** The recommendations of the Remuneration Committee minutes must be approved by the board of directors before they can be implemented.
- 22** The chairman of the Remuneration Committee shall attend each Annual General Meeting of the company to respond to any questions on the Committee's activities.
- 23** The Remuneration Committee chairman shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities.