

# VERONA PHARMA PLC

(the “Company”)

## AUDIT COMMITTEE TERMS OF REFERENCE

Updated by the Board on 12 April 2017

### CONSTITUTION

1 The board of directors (the “Board”) hereby resolves to establish a committee of the Board to be known as the audit committee (the “Audit Committee”):

- (a) to increase shareholder confidence and the credibility and objectivity of published financial information;
- (b) to assist the Board in meeting their financial reporting responsibilities;
- (c) to strengthen the independent position of the Company’s external auditors by providing channels of communication between them and the non-executive directors; and
- (d) to review the performance of the auditors.

### MEMBERSHIP

2 The members of Audit Committee shall be appointed by the Board (and may be removed by the Board with or without cause) and shall comprise at least three members. Except as otherwise permitted by the applicable NASDAQ rules, each member of the Audit Committee shall be an “independent director” as defined by NASDAQ Rule 5605(a)(2), meet the criteria for independence set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) (subject to the exemptions provided in Rule 10A-3(c)), and not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years.

3 Each member of the Audit Committee must be able to read and understand fundamental financial statements, including the Company’s balance sheet, income statement and cash flow statement, at the time of his or her appointment to the Audit Committee.

4 The chairman of the Audit Committee shall be appointed by the Board. The membership of the Audit Committee shall be set out in the annual report of the Company. Appointment to the Audit Committee shall be for a period of up to 3 years, which may be extended for two further periods, provided the director remains independent.

5 The compensation of Audit Committee members shall be as determined by the Board. No member of the Audit Committee may receive, directly or indirectly, any consulting, advisory or other compensatory fee from the Company or any of its subsidiaries, other than fees paid in his or her capacity as a member of the Board or of a committee of the Board.

6 A quorum of the Audit Committee shall be two members.

## **ATTENDANCE AT MEETINGS**

7 Other Board members shall have the right to attend Audit Committee meetings. The Audit Committee may invite any outsiders to attend its meetings as it deems appropriate. However, at least once a year the Audit Committee shall meet with the external auditors without any executive board members present. The Audit 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 OF MEETINGS**

8 Meetings shall be held not less than four times a year. The external auditors may request a meeting if they consider that one is necessary.

## **NOTICE OF MEETINGS**

9 Meetings of the Audit Committee shall be summoned at the request of any of its members or at the request of the external auditors if they consider it necessary.

10 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of the matters to be discussed at the meeting shall be forwarded to each member and any other person required to attend no later than 2 days before the date of the meeting. Any supporting papers shall be sent to each member of the Audit Committee (as appropriate) at the same time.

## **VOTING ARRANGEMENTS**

11 Each member of the Audit Committee shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a meeting of the Audit Committee.

12 If a matter that is considered by the Audit Committee is one where a member of the Audit Committee, either directly or indirectly has a personal interest, that member shall not be permitted to vote at the meeting.

13 Save where he has a personal interest, the chairman will have a casting vote.

## **AUTHORITY**

14 The Audit 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.

15 The Audit Committee shall establish and oversee the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in 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.

16 The Audit Committee is authorised by the Board to have unrestricted access to the Company's external auditors, and the Audit Committee is empowered, without further action by the Board, to cause the Company to pay the compensation of the external auditors established by the Audit Committee. The Audit Committee shall pre-approve all audit services to be provided to the Company, whether provided by the principal auditor or other firms, and all other services (review, attest and non-audit) to be provided to the Company by the external auditor; *provided, however*, that *de minimis* non-audit services may instead be approved in accordance with the applicable rules of the U.S. Securities and Exchange Commission.

17 The Audit Committee is further authorized to obtain, at the Company's expense, outside legal or other independent professional advice on any matter within its terms of reference and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. The Company must provide for appropriate funding, as determined by the Audit Committee, for payment of ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

#### **DUTIES AND TERMS OF REFERENCE**

18 The Audit Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain.

19 The Audit Committee shall review and challenge where necessary:

(a) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company;

(b) the methods used to account for significant and unusual transactions where different approaches are possible;

(c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

(d) the clarity 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, such as the business review and any corporate governance statement (insofar as it relates to the internal controls and risk management); and

(f) the effectiveness of the Company's internal controls and risk management systems as appropriate for the Company;

20 The Audit Committee shall:

(a) consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re- appointment and removal of the Company's external auditor. The Audit Committee shall be solely and directly responsible for overseeing the selection process for new auditors and evaluating, retaining and, when necessary, terminating the engagement of the external auditor. If an auditor resigns, the Audit Committee

shall investigate the issues leading to this and decide whether any action is required;

(b) have sole and direct responsibility for overseeing the relationship with the external auditor including (but not limited to):

(i) resolving disagreements between Company management and the external auditors regarding financial reporting;

(ii) approval of their remuneration, whether fees for audit or non-audit services;

(ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

(iii) assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements, the relationship with the auditor as a whole, including the provision of any non-audit services, and actively engaging in dialogue with the external auditor concerning any disclosed relationships or services that might impact the objectivity and independence of the auditor;

(iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business);

(v) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners; and

(vi) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;

(c) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;

(d) meet the external auditor at least once a year, without management being present, to discuss their remit and the following:

(i) any major issues which arose during the audit,

(ii) any accounting and audit judgements, and

(iii) levels of errors identified during the audit;

(e) review the representation letter(s) requested by the external auditor before they are signed by management;

(f) develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter; and

(g) consider and make recommendations to the Board whether the Company's audited financial statements be included in the Company's Annual Report on Form 20-F.

21 The Audit 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, the requirements of the London Stock Exchange's rules for AIM companies as appropriate, the requirements of the NASDAQ Global Market rules for listed companies or any other national or global securities exchange on which the Company's securities are listed, and the rules and regulations promulgated under the Securities Act of 1933, as amended, and the Exchange Act;

(b) oversee any investigation of activities which are within its terms of reference and act as a court of the last resort; and

(c) 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.

## **REPORTING PROCEDURES**

22 The Audit Committee chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

23 The secretary shall circulate the minutes of meetings of the Audit Committee to all members of the Board. The Audit Committee may, in addition, at any time request a full meeting of the Board at which its conclusions shall be reported.

24 The Audit Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

25 The recommendations of the Audit Committee minutes must be approved by the Board before they can be implemented.

26 The Audit Committee shall compile a report to shareholders on its activities to be included in the Company's annual report.

27 The chairman of the Audit Committee shall attend each Annual General Meeting of the Company to respond to any questions on the Committee's activities.