

## Midatech Pharma PLC (the "Company")

### REMUNERATION COMMITTEE - TERMS OF REFERENCE

#### 1. INTRODUCTION

At a meeting of the board of directors of the Company (the "**Board**") held on 3 December 2014, the Board resolved, in accordance with the articles of association of the Company, to establish a committee known as the Remuneration Committee (the "**Committee**") and approved the following terms of reference for the Committee.

#### 2. CONSTITUTION AND AUTHORITY

2.1 The Committee is authorised to investigate and undertake any activity within these terms of reference. It is authorised to seek any information it properly requires in order to perform its duties from the company secretary, any director, employee or professional adviser (subject to paragraph 2.2 below) of the Company or any subsidiary of the Company (where the term "**subsidiary**" shall be as defined in section 1159 of the Companies Act 2006, the Company and its subsidiaries from time to time being the "**Group**"). It is authorised to call any employee to be questioned at a meeting of the Committee as and when required. All directors, employees or professional advisers (subject to paragraph 2.2 below) of the Company are directed to co-operate with any such request made by the Committee.

2.2 If the Committee considers it necessary so to examine any activity within its terms of reference, it is authorised to obtain appropriate external professional advice including, without limitation, legal and accounting advice and the advice of independent remuneration consultants to assist it in the performance of its duties, to secure the services of outsiders with relevant experience and expertise and to invite such persons to attend meetings of the Committee. The Committee shall have full authority to commission any reports or surveys which it deems necessary to help it fulfil its obligations. The cost of obtaining such advice or services shall be borne by the Company within such limits as may be authorised by the Board from time to time.

2.3 Each member of the Committee shall disclose to the Committee:

- (a) any personal, financial or other interest in any matter to be decided or discussed by the Committee; and/or
- (b) any potential conflict of interest arising from a cross-directorship or otherwise; and

any such member shall abstain from voting on resolutions of the Committee in relation to which such interest exists and from participating in the discussions concerning such resolutions and (if so required by the Board) shall resign from the Committee or absent himself from all or part of the meeting of the Committee in question.

3. **DUTIES OF THE COMMITTEE**

3.1 The Committee shall:

- (a) determine and agree with the Board the framework or broad policy for the remuneration of the Company's chairman, chief executive, the executive directors, the company secretary and such other members of the executive management as it is designated to consider including any payment of a discretionary bonus to the executive directors. The remuneration of non-executive directors shall be a matter for the executive members of the Board (excluding the non-executive directors). No director or manager shall be involved in deciding his or her own remuneration;
- (b) in determining the remuneration policy, take into account all factors which it deems necessary including all relevant legal and regulatory requirements and associated guidance. The objective of such policy shall be to ensure that members of the executive management of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company;
- (c) when setting remuneration policy for directors, review and have regard to the remuneration trends across the Group;
- (d) review the ongoing appropriateness and relevance of the remuneration policy;
- (e) within the terms of the agreed policy and in consultation with the chairman and/or chief executive of the Board as appropriate, determine the total individual remuneration package of the chairman, each executive director, the company secretary and other designated senior executives including bonuses, incentive payments and share options or other share awards;
- (f) obtain reliable, up-to-date information about remuneration in other companies. To help it fulfil its obligations, the Committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary to help it fulfil its obligations, within any budgetary constraints imposed by the Board;
- (g) be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee;
- (h) approve the design of, and determine targets for, and monitor, any performance related pay schemes operated by the Company and approve the total annual payments made under such schemes and review and note annually the remuneration trends across the Company and the Group and

require the Board, where appropriate, to seek shareholder approval for any long term incentive arrangements;

- (i) administer all aspects and review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, the Committee shall determine each year whether awards will be made and, if so, the overall amount of such awards, the timing of such awards, the imposition of any conditions, the individual awards to executive directors, the company secretary and other designated senior executives and the performance targets to be used;
- (j) determine the policy for, and scope of, pension arrangements for each executive director and, if required by the Board, other designated senior executives;
- (k) ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- (l) oversee any major changes in employee benefits structures throughout the Company or Group;
- (m) consider and determine the other provisions of the service agreements of directors and (if required by the Board) other senior executives (in particular, the term of their agreement, the length of any notice period, termination payments and compensation commitments);
- (n) have regard in the performance of the duties set out in these terms of reference to any published guidelines or recommendations or relevant legal requirements regarding the remuneration of directors of companies whose shares are traded on AIM, and also to the London Stock Exchange's Rules for AIM companies, comments and recommendations of the UK Corporate Governance Code and associated guidance which the Committee considers relevant or appropriate;
- (o) consider and make recommendations to the Board concerning the disclosure of details of remuneration packages, structures, policy and pensions in addition to those required by law or, where relevant or appropriate, by the Combined Code and ensure that all provisions regarding disclosure of remuneration, including pensions are fulfilled;
- (p) vet, authorise and agree the policy for authorising claims for expenses from the chairman and chief executive of the Board and the other directors; and
- (q) consider such other matters as may be requested by the Board.

#### **4. MEMBERSHIP OF THE COMMITTEE**

- 4.1 The Committee shall comprise at least two members. Members of the Committee shall be appointed by the Board. Both of the members of the Committee (or a majority if the Committee comprises of more than two members) shall be independent non-executive directors of the Company. If there are insufficient independent non-executive directors discounting the chairman of the Board, the chairman of the Board may be a member of the Committee provided that, other than by virtue of his/her chairmanship, he/she fulfils the test of independence.
- 4.2 Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three year periods by the Board, provided the director in question continues to meet the criteria for membership of the Committee including being independent. A member of the Committee may be removed by the Board at any time.
- 4.3 Only members of the Committee have the right to attend Committee meetings. However, subject to paragraph 7.4 below, other individuals (such as the finance director, chief executive, the head of human resources, any other member of the Board and external advisers) may be invited by the Committee to attend all or part of any meeting as and when the Committee considers appropriate and necessary but such persons shall have no right of attendance.
- 4.4 Care should be taken to minimise the risk of any conflict of interest that might be seen to give rise to an unacceptable influence. Where possible, the chairman of the Committee and members of the Committee should be rotated on a regular basis.
- 4.5 Membership of the Committee shall be noted in the annual directors' report of the Company.

#### **5. CHAIRMAN OF THE COMMITTEE**

- 5.1 In the absence of the chairman of the Committee and/or an appointed deputy at any meeting of the Committee, the members of the Committee present shall elect one of their number (being a member who would qualify under these terms of reference to be appointed chairman of the Committee by the Board) to chair the meeting.

#### **6. SECRETARY**

The company secretary or such person as may be nominated by the company secretary or the Committee shall act as the secretary of the Committee.

#### **7. QUORUM**

- 7.1 The quorum necessary for the transaction of business at meetings of the Committee shall be two.

7.2 A duly convened meeting of the 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 Committee.

7.3 Meetings of the Committee may be held by telephone.

7.4 No member of the Committee or the Board shall participate at a meeting of the Committee (or during the relevant part) at which any part of his remuneration (including his options) is being discussed or participate in any recommendation or decision concerning his remuneration (including his options).

## 8. **FREQUENCY OF MEETINGS**

The Committee shall meet at least twice a year, at such other times as the chairman of the Committee may require and otherwise as required.

## 9. **NOTICE OF MEETINGS**

9.1 Meetings of the Committee shall be called by the secretary of the Committee at the request of the chairman of the Committee or any other member of the Committee.

9.2 Unless otherwise agreed, notice of each meeting of the Committee confirming the venue, time and date of the meeting, together with an agenda of items to be discussed, shall be forwarded by the secretary of the Committee to each member of the Committee, any other proposed attendee and all other non-executive directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to members of the Committee and, if appropriate, to any other proposed attendee at the same time.

## 10. **MINUTES OF MEETINGS**

10.1 The secretary of the Committee shall minute the proceedings and resolutions of all meetings of the Committee, including the names of those present and in attendance and the existence of any conflicts of interest.

10.2 Draft minutes of meetings of the Committee shall be circulated by the secretary of the Committee promptly following the date of the meeting of the Committee to all members of the Committee and the chairman of the Board. When finalised and approved, the minutes shall be circulated to all other members of the Board unless a conflict of interest exists or it would be inappropriate to do so.

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

11. **VOTING**

Subject to paragraphs 2.3 and 7.4, each member of the Committee shall have one vote. In the event of an equality of votes, the chairman of the Committee shall have a second or casting vote (again subject to paragraphs 2.3 and 7.4 above).

12. **ANNUAL GENERAL MEETING**

The chairman of the Committee (or another member of the Committee nominated by the chairman of the Committee) shall attend each annual general meeting of the Company to answer any questions from shareholders concerning the Committee's activities.

13. **REPORTING RESPONSIBILITIES**

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

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

13.3 The Committee shall produce a report of the Company's remuneration policy and practices to be included in the Company's annual report and ensure each year that it is put to shareholders for approval at the annual general meeting of the Company.

14. **OTHER MATTERS**

14.1 The Committee shall be given access to sufficient resources in order to carry out its duties, including access to the company secretary for assistance as required.

14.2 The 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.

14.3 In carrying out its duties, the Committee shall give due consideration to all relevant laws, regulations and guidance including the UK Corporate Governance Code, the QCA Corporate Governance Code for Small and Mid-Size Quoted Companies 2013, the NAPF Corporate Governance Policy and Voting Guidelines for AIM Companies and the AIM Rules for Companies.

14.4 The Committee shall, 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.

14.5 The Committee shall make available its terms of reference for inspection at the registered office of the Company and on the Company's website which shall also include an explanation of its role and the authority delegated to it by the Board.

- 14.6 The remuneration of non-executive directors shall be a matter for the executive members of the Board. The Board may, however, delegate this responsibility to a committee consisting of executive directors including the Chief Executive Officer/Managing Director.
- 14.7 Any of the terms set out in this document may be varied by a majority resolution of the Committee.

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