vectura

# A leader in inhaled pharmaceuticals

**Vectura Group plc** Annual Report and Accounts 2012/13

# Contents







# Business review: Highlights 2012/13

## Financial highlights

**Revenues slightly ahead of expectations**
£30.5m
(2011/12: £33.0m)

**EBITDA loss improves to**
£3.4m
(2011/12: £4.2m)

**Loss before tax decreased by 21% to**
£10.4m
(2011/12: £13.2m)

**Balance sheet strength maintained with cash and cash equivalents of**
£70.1m
(as at 31 March 2013)

## Operational highlights

### Significant regulatory and clinical progress made throughout the year

**Seebri® Breezhaler® (NVA237 (COPD); glycopyrronium bromide)**

**Product now launched in some European countries and Japan**

- Novartis' Seebri® Breezhaler® approved in the EU for maintenance treatment of COPD by the European Commission
- Approval for once-daily Seebri® Inhalation Capsules as maintenance COPD treatment in Japan
- EU and Japanese approvals triggered two milestone payments from Novartis of $10m (£6.2m) and $2.5m (£1.5m) respectively
- Seebri® Breezhaler® has been launched by Novartis in UK and Ireland, Germany and other countries, and Seebri® Inhalation Capsules in Japan
- US NDA filing for NVA237 expected in early 2014

**QVA149 (COPD)**

**European and Japanese filings completed**

- QVA149 is being investigated by Novartis for the maintenance treatment of COPD in the Phase III IGNITE clinical trial programme
- IGNITE is one of the largest international clinical trial programmes in COPD comprising 10 studies in total (ILLUMINATE, SHINE, BRIGHT, ENLIGHTEN, SPARK, BLAZE, ARISE, BEACON, RADIATE, LANTERN) with more than 7,000 patients across 42 countries
- Phase III data presented by Novartis at the European Respiratory Society (ERS) Annual Congress in September 2012
- Novartis filed QVA149 for marketing authorisation in Europe in October 2012, and a separate filing in Japan in November 2012
- The EU filing triggered a $5m (£3.1m) milestone payment to Vectura
- US NDA filing expected at the end of 2014

**VR315 (asthma/COPD), VR632 (asthma/COPD) and VR506 (asthma)**

- Development programmes continue to progress
- First development milestone of $3m (£1.9m) earned from new US partner on VR315
- Eligible to receive up to a further $32m upon achievement of future pre-determined development milestones
- VR506 development ongoing with two multi-centre, international clinical trials currently in progress, one expected to report in Q4, 2013 and the second in Q1, 2014

**Post-period events**

- Chinese JV, Kinnovata, formed to develop and commercialise products in fast growing Asian markets
- US approval of GSK's BREO™ ELLIPTA™ signals new additional royalty stream

We are pleased to report that Vectura continues to be in a strong financial position and is delivering on its strategy and its objectives. We have made significant progress on a number of fronts over the last year and the Group is at an exciting and potentially transformational period in its development.

During the year Vectura made significant regulatory, clinical and commercial progress from its product partnerships and the Group delivered many of its development targets. Vectura continues to maintain a strong and robust financial position through its existing royalty stream, prudent investment in R&D and a culture of cost discipline.

Vectura reported a number of commercially important successes this year, not least in the form of the EU approval of Seebri® Breezhaler® and the product's subsequent launch by our partner, Novartis, in the UK, Ireland, Germany and other countries. Vectura was also delighted that Novartis received approval for Seebri® Inhalation Capsules and subsequently launched the product in Japan, the world's second largest pharmaceutical market.

The significant clinical and regulatory advances made by Novartis with the QVA149 programme are also worthy of note. During 2012, Novartis announced positive results from the QVA149 Phase III clinical trial programme, IGNITE, which formed the basis for filing the marketing authorisation application with the European Medicines Agency (EMA), an event that triggered a $5m (£3.1m) milestone payment to Vectura. Novartis also filed this data in Japan.

With this progress, Vectura is entering a new phase of corporate development and growth. Over the near-term, Vectura expects our robust financial position to be supplemented with royalties from Seebri® Breezhaler®. Other products, such as QVA149, will further supplement the revenue stream as it progresses through milestones and ultimately reaches the market.

It has been a demanding yet exciting year and we would like to thank all our employees for their endeavours, which as ever formed the bedrock of our success, and our shareholders for their support. With a number of marketed and partnered products providing validation for our technology and development, Vectura is poised to embark on its next chapter of growth.



**Vectura Group plc** and its subsidiaries ("Vectura" or the "Group") is a product development company that focuses on the development of pharmaceutical therapies for the treatment of airway-related diseases. This growing market includes asthma and chronic obstructive pulmonary disease (COPD) and is estimated to be worth in excess of $30 billion worldwide.

Vectura has seven products marketed by its partners and a portfolio of drugs in clinical development, a number of which have been licensed to major pharmaceutical companies. Vectura has development collaborations and licence agreements with several pharmaceutical companies, including Novartis, Sandoz (the generics arm of Novartis), Baxter, GlaxoSmithKline (GSK) and Tianjin KingYork Group Company Limited (KingYork).

Vectura seeks to develop certain programmes itself where this will optimise value. Vectura's formulation and inhalation technologies are available to other pharmaceutical companies on an out-licensing basis where this complements Vectura's business strategy. For further information, please visit Vectura's website at **www.vectura.com**.

Blue-chip partners including Novartis, Sandoz, Baxter and GSK have invested in, and validated, Vectura's technology and approach to drug development.

## Value realisation from product progress

**Our value will stem from pipeline products such as:**

**Seebri® Breezhaler® (NVA237; glycopyrronium bromide)**, a long-acting muscarinic antagonist (LAMA), approved by the European Commission for use in Europe as a once-daily, inhaled, maintenance bronchodilator treatment to relieve symptoms in adult patients with chronic obstructive pulmonary disease (COPD). Seebri® Inhalation Capsules 50 mcg have been approved in Japan as maintenance COPD treatment.

**QVA149**, the investigational fixed-dose combination of glycopyrronium bromide with the once-daily, long-acting beta-agonist (LABA), indacaterol maleate, developed and marketed by Novartis as Onbrez® Breezhaler®.

**VR315, VR632 and VR506**, generic versions of drugs for COPD and/or asthma.

### Seebri® Breezhaler® (NVA237; glycopyrronium bromide)

During 2012 Novartis, the worldwide licensee for NVA237, received approval of Seebri® Breezhaler® in the European Union and Seebri® Inhalation Capsules in Japan and nine other countries including Canada and Australia. Subsequently, the product has been launched in several countries.

Seebri® Breezhaler® is an innovative, once-daily therapy that has been shown to reduce breathlessness and exacerbations, improve lung function and help improve overall quality of life, when compared to placebo. Its approval in the European Union is therefore an important development and provides a new treatment option for patients with COPD, the world's fourth biggest cause of death.

Japanese approval for once-daily Seebri® Inhalation Capsules as maintenance COPD treatment was received by Novartis in September 2012. Seebri® Inhalation Capsules provide doctors and patients with a once-daily treatment option for COPD, a condition that is increasing in prevalence in Japan.

In the US, Novartis is undertaking Phase III studies of NVA237 and expects to file the product early in 2014.

**Novartis QVA149 milestone**

**£3.1m**

($5m)

**VR315 milestone**

**£1.9m**

($3m)

**QVA149, the investigational fixed-dose combination of glycopyrronium bromide and indacaterol maleate**

This year also saw a number of important milestones in the development of QVA149. In April 2012, Novartis reported headline Phase III data from the first four studies of the IGNITE Phase III clinical trial programme. The studies, ILLUMINATE, SHINE, BRIGHT and ENLIGHTEN, all met their respective primary endpoints. These results were supplemented by additional positive Phase III data from SPARK, reported by Novartis in August 2012. Three presentations of clinical data from the IGNITE programme were made at the ERS Annual Congress in September 2012.

QVA149 was filed for marketing authorisation with the EMA in October 2012, triggering a $5m (£3.1m) milestone, and in November 2012 QVA149 was filed in Japan. US New Drug Application (NDA) filing is expected at the end of 2014.

The dual activities of LAMA/LABA combination products offer the potential for rapid and potent bronchodilation, providing an opportunity to address a large and unmet medical need for COPD sufferers. This growing, multi-billion dollar market makes QVA149 a significant value prospect for Vectura should the product reach the market.

## Generic programmes

Development work continues on Vectura's generic programmes: VR315 (asthma/COPD), VR632 (asthma/COPD) and VR506 (asthma). In March 2012 Vectura announced receipt of a €0.4m development milestone from Sandoz relating to VR632, and in August 2012 Vectura received its first development milestone of $3m (£1.9m) from its US partner related to VR315, indicating further development progress during the period. Two multi-centre, international clinical trials are underway on VR506, which should complete in late 2013 and early 2014.

## Technology development

It is essential that the Group's product focus is underpinned by its intellectual property. Vectura commits significant efforts to ensure that competitiveness in this area is maintained through innovation. Vectura's technologies will therefore continue to drive value by enabling, improving and adding value to the products we develop.



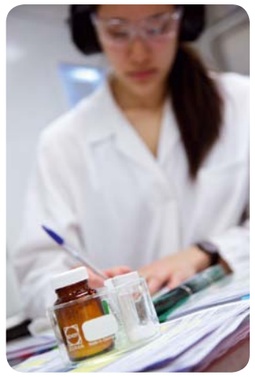
2012/13 was a landmark year for Vectura, evidenced by the significant progress made by licensees of Vectura products and technologies.

## Outlook

We look forward to a number of significant catalysts in this coming year from our programmes. Looking ahead, we will be in a position to build on royalty income from sales of Seebri® Breezhaler® through additional near-term development milestones from this and other products in our pipeline.

These additional income streams provided by our commercial and late-stage products will further strengthen our robust financial position and provide a platform from which to accelerate the next phase of Vectura's growth. As part of this growth, we will continue to seek and carefully evaluate suitable opportunities in established and emerging markets.

We continue to believe that the low risk development model we adhere to, together with tight cost control and focused development criteria will continue to result in value enhancement.



## Post-period developments

### Kinnovata

Vectura announced on 13 May 2013 that it had established Tianjin Kinnovata Pharmaceutical Company Limited ("Kinnovata") in China with two partners: Tianjin KingYork Group Company Limited ("KingYork") and Zendex Bio Strategy Inc. ("Zendex"). Completion of the Kinnovata transaction is subject to final Government clearances in China, which are expected mid-to-late 2013.

Kinnovata will develop, manufacture and commercialise respiratory products for the rapidly growing domestic Chinese and other regional markets in Asia. This new company will initially exploit Vectura's Clickhaler® and Duohaler® dry powder inhaler (DPI) technology platforms to address current unmet needs in the growing Asian respiratory markets, notably the asthma and COPD therapeutic areas.

Kinnovata will be an independent company with its own development and manufacturing operations located in Tianjin. Vectura is also providing training and other expertise to Kinnovata as the company prepares to undertake its first Clickhaler® clinical studies in Chinese patients. An application for the import of Asmasal® Clickhaler® (salbutamol) has been filed with the Chinese State Food and Drug Administration (SFDA).

In addition, a separate R&D Cooperation Agreement has been established between Kinnovata and the Shanghai Institute of Pharmaceutical Industry to undertake the development of a number of DPI products on behalf of Kinnovata.

### GSK

On 10 May 2013 the United States Food and Drug Administration (FDA) approved a NDA for BREO™ ELLIPTA™ (fluticasone furoate/vilanterol 100/25 mcg) submitted by GSK. In August 2010, GSK entered into a licence and an option to license agreement for certain of Vectura's dry powder formulation patents. Vectura is entitled to a low single digit royalty on net sales of products using these patents capped at a maximum amount of £13m per annum. BREO™ ELLIPTA™ will be the first product to be launched by GSK that will use patents covered by the agreement. GSK has stated that it expects the product to be available in the United States during the third quarter of 2013. BREO™ ELLIPTA™ was filed for approval in Europe and Japan in 2012.

A second GSK combination product covered by the agreement has also been filed for approval in the United States, Europe and Japan.

**Jack Cashman**
Chairman

**Chris Blackwell**
Chief Executive

20 May 2013



# Collaborative

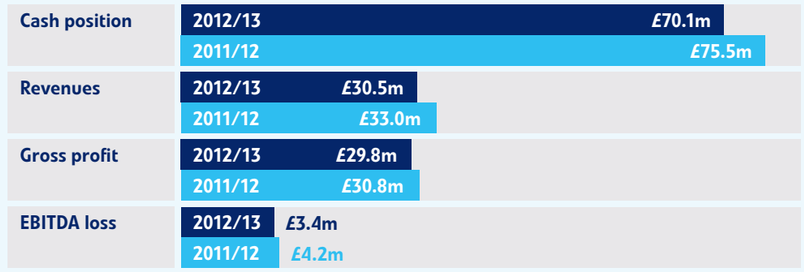
Our collaborative approach to drug development is seen both internally and in successful partnerships. Partners include Novartis, Sandoz, KingYork, Baxter and GSK.

# Business review: Financial review

## Summary

The Group ended the year with £70.1m of cash (2012: £75.5m). Revenues of £30.5m (2011/12: £33.0m) were lower (8%) than in the previous year as a result of lower pharmaceutical development service revenues and device sales this year, but were ahead of expectations. These reductions have been partially offset by an increase in one-off milestone revenues recognised and received during the year following European and Japanese approval of NVA237 and filing of QVA149 with the European Medicines Agency (EMA).

The EBITDA loss has improved to £3.4m (2011/12: £4.2m), this improvement is mainly due to a 5% increase in gross margin and a 6% reduction in research and development expenditure to £30.9m (2011/12: £32.8m) in the period.




## Revenue

Revenue includes fee income from royalties, product licensing, technology licensing, development fees and device sales.

Overall, royalties were down on the previous year at £13.0m (2011/12: £13.5m) primarily due to the exceptional royalties received for Extraneal® last year. ADVATE® royalties of £11.1m (2011/12: £10.6m) are higher than last year due to an exceptional amount of £0.6m relating to prior year sales. Underlying ADVATE® sales have remained constant at $1.9bn in 2012 (2011: $1.9bn). Vectura receives a net royalty of under 1% at these high levels of cumulative annual sales. Extraneal® royalties were £0.8m (2011/12: £1.7m), this being an expected decrease as last year included exceptional royalties of £1.1m relating to sales in prior years. The majority of the remaining royalties were generated from Adept®, £0.6m (2011/12: £0.9m). In addition, Vectura received its first royalties in the year from Novartis for sales of Seebri® Breezhaler®.

Product licensing revenues in the period were £12.8m (2011/12: £12.1m), which includes milestone payments from Novartis of $10.0m (£6.2m) and $2.5m (£1.5m) relating to the European and Japanese approval for NVA237 respectively. A further milestone of $5.0m (£3.1m), relating to QVA149 from Novartis, was earned in October 2012, relating to the filing of a marketing authorisation with the EMA. Product licensing revenues also include a $3.0m (£1.9m) development milestone relating to VR315 US. Of this amount, $2.0m was released from deferred income and a further $1.0m was received in the year.

Technology licensing revenues of £3.7m (2011/12: £2.3m) are higher than the previous year. £3.5m of the total revenue stream relates to milestones due under a non-exclusive licence agreement signed with GSK in August 2010. Under the terms of the agreement, Vectura received a £10m upfront payment in 2010/11 and is due to receive a further £10m by the time the products are launched. £6.0m of this total had been received by 31 March 2013.

Pharmaceutical development services (PDS) revenues decreased to £0.6m (2011/12: £2.8m) as work on some of our partnered programmes has been successfully completed. Future PDS revenues will depend on the extent and nature of feasibility studies and new licensing deals as the development of inhalation products is a very specialist area, with partners frequently requiring Vectura's involvement in the continuing development of a product. We do not expect any significant change to these revenues in the next financial year.

Device sales of £0.4m were lower than the prior period (2011/12: £2.3m) as our trading partners now hold stock at the required level.

## Gross profit

The gross profit in the year to 31 March 2013 was £29.8m (2011/12: £30.8m). Gross profit represents 98% of revenue (2011/12: 93%) and this increase is due to the higher proportion of royalty and licensing revenues received as a proportion of total revenues.

### Foreign exchange rates

The following foreign exchange rates were used during the year:

| | 2012/13 | 2011/12 |
|---|---|---|
| **Average rates:** | | |
| £/$ | **1.58** | 1.60 |
| £/€ | **1.23** | 1.16 |
| **Period end rates:** | | |
| £/$ | **1.52** | 1.60 |
| £/€ | **1.18** | 1.20 |

## Research and development expenses

Total investment in research and development was £30.9m, a 6% decrease on the previous year (2011/12: £32.8m). Of the £30.9m, 28% of this expenditure related to clinical trials (2011/12: 24%).

## Taxation

The tax credit for the year was £4.5m (2011/12: £8.8m). Research and development tax credits of £4.4m were received in cash during the year (2011/12: £4.6m), of which £4.0m was included in other receivables as at 31 March 2012, resulting in current year tax income of £0.4m. An estimated research and development tax credit of £3.8m relating to the 2012/13 financial year has been recorded and this is expected to be received during 2013/14. As the Group's losses reduce, research and development tax receipts will decline significantly. A release of £0.3m from a deferred tax liability has also been credited to the statement of comprehensive income for the 2012/13 financial year due to the utilisation of tax losses carried forward.

## Intangible assets

Intangible assets of £17.1m (2012: £23.4m) have been amortised by £6.3m (2012: £7.5m) during the year. These intangible assets relate to the Innovata acquisition and they will continue to be amortised over their expected useful life. The reduction in the amortisation charge is in line with the reduction in royalty streams from Extraneal® in certain territories, and all Extraneal® royalty streams are expected to cease by Q1 2014. The £17.1m of intangible assets will be amortised over the next three years.

## Property, plant and equipment

Property, plant and equipment increased by £3.0m (2012: increase of £3.1m) in the year as a result of the Group's investment in its inhaled product manufacturing capabilities.

## Deferred income

Deferred income relates to milestones received in cash but not yet recognised as revenue. £3.4m of deferred income was released during the year, mainly relating to GSK and VR315 US milestones. Of the £1.4m on the balance sheet at 31 March 2013 (2012: £4.8m), £0.1m will be recognised as revenue in 2013/14 and £1.3m, relating to the VR315 RoW deal with Sandoz, will be recognised as revenue in later periods.

## Cash flow

Cash decreased by £5.4m in the period (2011/12: increase of £1.1m). The net cash flows from operating activities are negative at £2.8m (2011/12: positive £2.1m). At 31 March 2013, Vectura had cash and cash equivalents of £70.1m (2012: £75.5m), which was equivalent to 21p per share in issue.

**Anne Hyland**
Chief Financial Officer

20 May 2013

# Business review: Overview

Vectura Group plc and its subsidiaries ("Vectura" or the "Group") is a product development company that focuses on the development of pharmaceutical therapies for the treatment of diseases that affect or can be treated with drugs that act on the airways (Airways Diseases). This segment of the pharmaceutical market includes large indications such as asthma and chronic obstructive pulmonary disease (COPD) and is estimated to be worth in excess of $30 billion in sales worldwide[1,2]. This segment of the market also covers a wide range of other indications including viral and fungal infections, allergies, cough and fibrotic diseases of the lung.

Vectura's development and formulation expertise is evidenced by numerous accomplishments including seven marketed therapies. The Group's in-house and partnered pipeline assets span both branded treatments and high-value generics. These programmes, if successful, will compete in multi-billion dollar markets.

A significant achievement from Vectura's branded drugs programme is the EU approval of Seebri® Breezhaler® (glycopyrronium bromide) and the product's subsequent launch by Vectura's partner, Novartis. The drug has been launched in the UK, Ireland and Germany and is currently being rolled out across other countries. Novartis also received approval for Seebri® Inhalation Capsules (glycopyrronium bromide) and subsequently launched the product in Japan, the world's second largest pharmaceutical market.

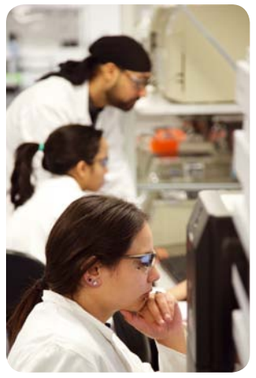
Vectura's approach to product development is driven by innovative and enabling formulation and inhalation device technologies, coupled with significant know-how. These capabilities underpin the Group's own assets, and also offer partners the opportunity to collaborate in the development of relevant and novel therapies. Vectura's proprietary enabling technologies are also available for out-licensing.

1 Bank of America Merrill Lynch. Pan European Pharmaceutical Research. *Competitive trends in key therapy areas* March 2013.

2 Citi Equity Research. Almirall S.A. *Respiratory Upside Transformational* 29 November 2012.



# Business review: Core purpose, values and strategy



## Our people

We have a talented team of people at Vectura committed to developing therapies that improve the quality of patients' lives. The Airways Disease market is a large and growing market and we are confident we will succeed in creating value for Vectura's shareholders.

## Our main values

We have a strong foundation of core company values. Everything we do stems from our five key values and these are reflected in the way we operate our business, both internally and externally:

**We focus on Achievement**
– we aim to deliver on the challenging goals we set ourselves

**We encompass Enthusiasm**
– we give our best and enjoy what we're doing

**We enjoy Participation**
– success comes from our culture, which fosters creativity and teamwork

**We strive for Innovation**
– we think freely and creatively about our goals

**We believe in Trust and Respect**
– we value people and ideas on their merits

## Our strategy

Vectura's goal is to create value for its shareholders through the development of innovative products for Airways Diseases with high unmet need. We aim to achieve this goal by accessing drug assets, either generic or novel, with the potential to offer real benefit to patients through in-licensing assets alone or in partnership and retaining a valuable share of the economics once commercialised. This strategy will be executed within a culture of sound financial discipline.



## Treating diseases of the airways

Vectura has partnered and contributed to the development of seven marketed products to date. We intend to build on the Group's partnering success by adding additional assets to our development pipeline, including commercialisation opportunities that offer sound economics.

Vectura's in-house technological and formulation expertise underpins our clinical portfolio of high-value, limited-competition generic products for the treatment of Airways Diseases. Two of these assets have been licensed to other companies, and one other clinical-stage generic asset is currently un-partnered. The Company's array of enabling devices and formulation technologies supports product development in both the branded drug and high-value generic markets. This vastly amplifies the commercial potential of Vectura's technologies and expands its geographic reach. Vectura believes that emerging markets may offer a commercial opportunity for it to leverage its technology to facilitate access to key drugs at affordable prices.

Vectura's product development goals are accompanied and enabled by a strong focus on revenue- and cash-generation, and by a strong intellectual property (IP) portfolio. To that end, the Group's strategy is to:

- Out-license products to major pharmaceutical companies in return for milestones and royalties;
- Develop or co-develop selected specialty products to commercialisation in order to obtain maximum return of value;
- Collaborate with pharmaceutical partners in both generic and branded markets for joint or co-development of inhaled product opportunities;
- Continue to innovate Vectura's technology and build the Group's IP portfolio; and
- Acquire or in-license selected products, technologies or businesses that complement and enhance in-house assets.

# Business review: Market potential

## A carefully developed strategy for growth

To generate as much value as possible from global opportunities, we are focusing on both the branded and generic markets. These are very large markets, with dry powder inhalation (DPI) products currently generating sales in excess of $11 billion a year and growing. The Group's specialism and expertise in inhaled product development put us in a good position to manage the inevitable regulatory challenges posed for both branded and generic drugs. There are relatively few competitors working on complex, inhaled generic products, and new market opportunities are emerging that provide huge potential for growth.

The respiratory system is comprised of the upper and lower airways, the lung tissue, and the vasculature supplying them. Through the exchange of carbon dioxide and oxygen, the respiratory system is responsible for delivering oxygen to all parts of the body via the bloodstream.

**Asthma** is a chronic inflammatory disease of the bronchial tree – the airways leading to and from the lungs. It is a reversible condition, resulting in temporary narrowing of a sufferer's airways, often as a result of external stimuli including specific triggers such as stress, pollen, exercise or simply a viral respiratory infection. Asthma symptoms, which are episodic, include coughing, wheezing and chest tightness, particularly at night and in the early morning.

**Chronic obstructive pulmonary disease (COPD)** is a chronic, slowly progressive, and only partly reversible airflow obstruction, primarily associated with tobacco smoking, air pollution and occupational exposure. COPD usually involves two related diseases: chronic bronchitis (irreversible inflammation of the mucous membranes) and emphysema (destruction of the lung tissue). Symptoms include shortness of breath, coughing, phlegm and activity limitation.

Hundreds of millions of people every day suffer from chronic Airways Diseases including asthma, chronic obstructive pulmonary disease (COPD), allergies and pulmonary arterial hypertension (PAH). For example, there are approximately 330 million people globally living with COPD and it is predicted to be the third leading cause of death by 2030[3]. Currently the disease is largely hidden, with 50-75% of patients undiagnosed. Thirty million patients in the US suffer from COPD; only six million receive treatment. Pharmacological treatments are currently unable to reverse the underlying scarring of the lung and airways but do relieve symptoms and decrease exacerbations and hospitalisation.

According to the World Health Organisation (WHO), around 235 million people currently suffer from asthma worldwide. It would appear that the strongest risk factors for developing asthma are inhaled substances that cause an allergic reaction or irritate the airways (such as pollution). There is strong evidence that the prevalence of asthma increases as populations adopt an urban lifestyle and, with WHO forecasting that the world's urban population will increase from around 45% currently to around 59%, it also forecasts that there could be an additional 100 million asthma sufferers by 2025. It is the most common chronic disease in children. In short, this is a disease state of already considerable, and growing, significance. Asthma is a public health problem across high and low income countries and, with mortality rates higher in developing countries, is likely to see increased spending in emerging economies.

Asthma and COPD make up the third-fastest growing marketplace for therapeutic treatments, with the total market estimated to be worth more than $30 billion in 2012, according to analyst reports. The increase in fixed-dose combination products and ongoing advances in effective therapies will result in this figure continuing to grow. Vectura's products for asthma and COPD target over half of this ever-expanding global market.

### Seeking value

Vectura has developed therapies for conditions such as Parkinson's disease (VR040) and Cystic Fibrosis (VR496), from which we seek to derive value through licensing. No further financial investment will be made by the Company in these assets.

3 *The Lancet* Vol 380, 15 December 2012.



# Business review: Products

## Product pipeline

| Product | Indication | Pre-clinical | Phase I | Phase II | Phase III | Filed | Region |
|---|---|---|---|---|---|---|---|
| **Respiratory** | | | | | | | |
| NVA237 | COPD | | | | | | US |
| QVA149 | COPD | | | | | | US |
| QVA149 | COPD | | | | | | EU & Japan |
| **Generic/branded generics** | | | | | | | |
| VR315 | Asthma/COPD | Partner: EU & Rest of World – Sandoz, US – Undisclosed | | | | | |
| VR632 | Asthma/COPD | Partner: EU – Sandoz, US & Rest of World – Available for licensing | | | | | |
| VR506 | Asthma | Partner: Available for licensing | | | | | |

## Partnered proprietary products and technologies

In the asthma and COPD markets, Vectura has been successful in partnering its branded assets and our pipeline of respiratory generics. The Group has also leveraged value from its intellectual property portfolio and technologies through licences with other pharmaceutical companies.

Although COPD cannot be cured, the disease can be managed effectively through the use of medication. Bronchodilators – medicines that relax and open air passages in the lungs – are the fundamental first-line maintenance treatment for the symptomatic management of COPD. Vectura, through its alliance with Novartis, is helping to address unmet medical need through the development of effective and innovative drugs such as glycopyrronium (NVA237) and QVA149.

### Seebri® Breezhaler® (glycopyrronium bromide) and QVA149 for chronic obstructive pulmonary disease (COPD)

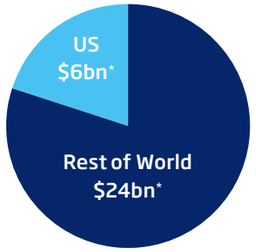
Seebri® Breezhaler® is a dry powder formulation for inhalation of glycopyrronium bromide, a once-daily long-acting muscarinic antagonist (LAMA) approved for the treatment of COPD. The drug acts by preventing the action of an endogenous chemical messenger, acetylcholine, on muscarinic receptors in muscles surrounding the airways. This provides benefit to patients by causing dilation of the airways to improve airflow in and out of the lungs. Clinical trials demonstrated that glycopyrronium has been shown to reduce breathlessness and exacerbations, improve lung function and help improve overall quality of life when compared to placebo.

Vectura, along with its co-development partner, Sosei Group Corporation, developed the drug to a Phase II proof-of-concept before exclusively licensing it to Novartis in April 2005.

In September 2011, Novartis filed glycopyrronium (NVA237) for marketing authorisation with the EMA under the brand name Seebri® Breezhaler®. The drug was approved in September 2012 in the EU and in Japan under the brand name Seebri® Inhalation Capsules. The EU approval triggered a $10 million (£6.2m) milestone to Vectura and the Japanese approval a $2.5 million (£1.5m) milestone, along with subsequent royalty streams. The approval of this drug was a landmark and value-enhancing event for Vectura, providing further validation of Vectura's business model to date.

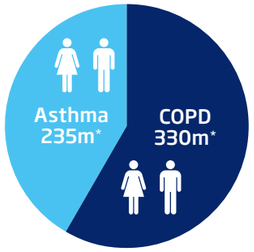
Following discussions between Novartis and the FDA, the US filing for NVA237 is expected in early 2014.

**Global respiratory market estimated to be worth a total of $30bn**

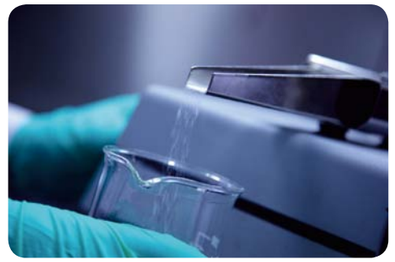



*Analysts' report

**Estimated number of people who suffer from respiratory diseases worldwide**




*WHO figures 2012



### QVA149

QVA149 is an investigational, inhaled, once-daily, fixed-dose combination of indacaterol maleate and glycopyrronium bromide, being developed by Novartis. QVA149 was filed for marketing authorisation with the EMA in October 2012, triggering a $5m (£3.1m) milestone, and in November 2012 QVA149 was filed in Japan. US New Drug Application (NDA) filing is expected at the end of 2014.

This investigational drug offers the dual activity of a long acting beta-adrenergic agonist (LABA) and a long-acting muscarinic antagonist (LAMA) offering the potential for effective bronchodilation with convenient once-daily dosing. LABAs work by stimulating receptors in the smooth muscle of the airways, increasing the diameter of the airways that become constricted in COPD patients. QVA149 has the potential to address a large and unmet medical need for COPD sufferers. There is currently no once-daily LAMA/LABA fixed dose combination approved.

Novartis commenced the Phase III IGNITE clinical trial programme with QVA149 in May 2010. IGNITE is one of the largest international clinical trial programmes in COPD comprising 10 studies in total (ILLUMINATE, SHINE, BRIGHT, ENLIGHTEN, SPARK, BLAZE, ARISE, BEACON, RADIATE, LANTERN) and more than 7,000 patients across 42 countries. The first eight studies completed in 2012. The studies were designed to investigate efficacy, safety and tolerability, lung function, exercise endurance, exacerbations, shortness of breath and quality of life.

In October 2012, Novartis filed a marketing authorisation application with the EMA for QVA149 for the maintenance treatment of COPD. The first five studies in the Phase III IGNITE clinical trial programme for QVA149 formed the basis of the filing. Following discussions between Novartis and the FDA, the US filing for QVA149 is expected by the end of 2014.

To date, Vectura has received $52.5m from Novartis and, under the terms of the licence, could receive up to an additional $135m upon achievement of regulatory and commercialisation targets for both the monotherapy and combination product. Vectura has no cost obligations for these products and royalties will be received on product sales following product launches.

## Generic products

Inhaled respiratory drugs comprise a large global market (over $6bn in the US alone in 2012), where many of the patents covering the products expire in the 2015-2020 timeframe. With an ever-growing need for effective and affordable medicines, these products have the potential to generate significant value as substitutable generics or branded generics. The extensive formulation and device expertise required to develop DPI products suggest this market may be associated with high barriers to competition and therefore may offer greater growth potential and higher value. Vectura is ideally placed to take advantage of this opportunity.

### VR315 for asthma/COPD

VR315 is an inhaled combination therapy for asthma and COPD, licensed to Sandoz AG for development and commercialisation in Europe and the rest of world (RoW). The deal is worth up to €22.5m in milestones and development funding, plus royalties on all products sold. Vectura has received all development funding with a further €7.5m in milestones to be received.

In August 2011, Vectura signed a licence agreement for the development, manufacturing and commercialisation of VR315 in the US with the US division of a leading international pharmaceutical company. In August 2012, Vectura announced that it recorded its first development milestone under this agreement of $3m (£1.9m) in revenues for the period to 30 September 2012. The $3m includes the realisation of $2m of deferred revenue received in March 2012. Vectura is eligible to receive up to a further $32m upon achievement of future pre-determined development milestones. These milestones, together with the initial payment of $10m in August 2011, total $45m. In addition, Vectura will receive a royalty from all VR315 US sales.

### VR632 for asthma/COPD

VR632 is Vectura's second inhaled combination therapy for asthma and COPD. The European rights for VR632 were licensed to Sandoz in December 2007 in a deal worth up to €15.5m in milestones and development funding plus royalties on all products sold. Vectura retains the rights for the US and other territories.

### VR506 for asthma

VR506 is an inhaled corticosteroid (ICS) for the treatment of asthma, which entered clinical development in early 2011. Products containing ICS and their combinations with long-acting beta agonists (LABA/ICS) are the mainstay of prophylactic therapy for asthma with overall US sales of over $6 billion last year. As one of the recommended "preventer" drugs for adults and children, they are often prescribed alongside beta$_2$-agonist bronchodilators. Two multi-centre, international clinical trials are currently in progress, with the first due to complete before year end and the second in Q1 2014. These trials will form the basis of our out-licensing efforts.



## Marketed products

Vectura's historic royalty streams have been derived from our marketed products, with ADVATE® currently being the main value driver. These drugs have been developed using aspects of Vectura's intellectual property (IP) and are sold by partners.

| Product | Indication | Partner | Market | Description |
|---|---|---|---|---|
| **Asmabec® Clickhaler®** | Asthma | Recipharm | Europe | Beclometasone, an inhaled corticosteroid |
| **Asmasal® Clickhaler®** | Asthma | Recipharm | Europe | Short-acting beta$_2$-agonist for rapid asthma symptom relief |
| **ADVATE®** | Haemophilia A | Baxter | Worldwide | A formulation of Factor VIII |
| **Adept®** | Post surgical adhesions | Baxter | Worldwide | A solution used to prevent surgical adhesions, which are a common complication of surgery in abdominal and gynaecological surgery |
| **Extraneal®** | Peritoneal dialysis | Baxter | Worldwide | A solution used in the treatment of kidney failure patients with peritoneal dialysis |
| **Meptin®** | Asthma | Otsuka | Japan | Short-acting beta$_2$-agonist for the rapid relief of mild, intermittent asthma symptoms |
| **Seebri® Breezhaler®** | COPD | Novartis | Germany, UK, Ireland & Japan* | Once-daily maintenance bronchodilator treatment |

* Seebri® Inhalation Capsules in Japan. Seebri® Breezhaler® (glycopyrronium bromide, NVA237) is a registered trademark of Novartis AG.

### ADVATE® for haemophilia A

In 2000, we granted worldwide rights to Baxter to use our stabilisation patents in its serum-free recombinant Factor VIII, ADVATE®. This is indicated for the treatment of haemophilia A and is marketed worldwide by Baxter, from which Vectura earns royalties from sales.

### Extraneal® for peritoneal dialysis

Extraneal® is a peritoneal dialysis solution containing icodextrin, licensed to Baxter in 1996 and marketed by Baxter worldwide. Peritoneal dialysis is a form of treatment for kidney failure used to remove waste and excess water from the blood, a function that is usually performed by healthy kidneys. In peritoneal dialysis, rather than using a dialysis machine, a special fluid is fed through a catheter into the abdominal cavity that surrounds the intestines and, after a few hours, the toxic waste and excess water will have become dissolved in the fluid which is then drained from the body through the same catheter. Vectura receives royalties on sales in the US and certain other territories.

### Adept® for prevention of surgical adhesions

Adept® is a 4% icodextrin solution used during surgery to reduce post-surgical adhesions, a frequent and major complication after gynaecological and other abdominal surgery, where abnormal scarring causes the surfaces of internal structures to stick together. Whilst not necessarily dangerous in themselves, they can lead to future complications, often years later or if further abdominal surgery is required. It has been used in Europe since 2000 and since 2006 in the US. In December 2005, we signed a licence deal with Baxter for the manufacture and distribution of Adept®.

# Business review: Enabling technology platforms

Vectura has a wide range of important drug delivery technology platforms that are patent-protected, used to support its own product development. Vectura also offers technologies for licence to other pharmaceutical companies, a strategy that has already generated significant revenue for the Company.

Vectura has a state-of-the-art Good Manufacturing Practice (GMP) facility that has been designed specifically to manufacture inhaled products to support clinical trials through to regulatory filing.

The development of drugs for inhalation is more complex than for oral delivery or injectable drugs and different approaches are required depending on the characteristics of the drug being delivered. Companies across the world are keen to harness our expertise and technology for their own inhalation programmes and we expect that this will lead to future collaborations and licensing deals.

### Formulation technologies – including PowderHale®

Vectura's formulation technologies include PowderHale®, a patented DPI formulation technology designed to improve performance of fine particle drug powders by allowing aerosolised drug particles to achieve high lung deposition with low-dose variability. This is achieved by incorporating an additional pharmacologically inactive excipient known as a Force Control Agent (FCA). We also possess expertise in micronisation, blending and spray drying, all of which are used in the development of our own and third-party products.

An example of the type of formulation technology licensing deal possible is the non-exclusive licensing agreement signed in August 2010 with GSK, which enables them to use some of our dry powder drug formulation patents for two late-stage development compounds in their airway product pipeline. Under the agreement, Vectura will receive £20 million by the time the compounds are launched, as well as earning royalties on sales of these products, generating up to £13m per year.

### Products delivered in Clickhaler® for asthma

Five products have gained regulatory approvals for the treatment of asthma that are delivered using Clickhaler®, Vectura's proprietary reservoir DPI device.

Asmasal® and Asmabec® are marketed by Recipharm in the UK, France and Ireland. Asmasal® contains salbutamol, a short-acting beta$_2$-agonist for the rapid relief of asthma symptoms. Asmabec® contains beclometasone, an inhaled steroid used as standard preventative therapy for asthma. Meptin® (procaterol) is a short-acting beta$_2$-agonist for the rapid relief of mild, intermittent asthma symptoms, marketed by Otsuka Pharmaceutical in Japan.

Regulatory approvals have also been received for Clickhaler® budesonide in Germany, the Netherlands and New Zealand, with approvals for Clickhaler® formoterol received in Denmark, the Netherlands, South Africa and New Zealand. Neither of these products is marketed at present; we are actively exploring new territories for marketing them as well as other Clickhaler® products. Post period: on 13 May 2013 Vectura announced that it had established a strategic partnership (Kinnovata) for a new respiratory business in China. Kinnovata will aim to commercialise products in the fast-growing Asian respiratory markets. The worldwide rights to Clickhaler technology are being transferred to Kinnovata.



# Enabling

Our formulation technologies and proprietary devices enable delivery directly to the lungs and underpin the Company's development pipeline.

GyroHaler® multi-dose inhaler


Clickhaler® single-dose inhaler

Duohaler® dry powder inhaler

### Multi-unit dose DPI devices

Vectura's cost-effective, multi-unit dose DPI technologies, designed to deliver locally-acting drugs to the lungs, include devices such as GyroHaler® and OmniHaler®. Compact and easy to use, our devices consist of just a few moulded parts, which reduces manufacturing costs. Each device delivers up to 60 doses and is disposable after use. They have aerosolisation characteristics that are competitive in the marketplace and provide excellent drug protection from moisture and light using sealed, foil blisters. GyroHaler® can be used to deliver some of our generic products and is scaled up for commercial launch. Other devices are in late-stage development.

Vectura continues to invest in its device platform and has tailored the device technologies for the US airway generics market and has received recent validation from both partners and other external parties. All our multi-unit dose DPI technologies are available for licensing where such a partnership would add value to the business for products/territories not already licensed.

### Duohaler® device and combination products for asthma/COPD

In addition to our multi-unit dose devices we also the two reservoir DPIs Clickhaler® and Duohaler®. Duohaler® provides advantages over a number of other multi-dose DPIs. Two separate drug reservoirs feed two individual drug formulations into two separate metering chambers, and the drugs are then delivered to the user in the same inhalation. This process obviates the need to co-formulate combination drugs and provides a means of delivering simultaneously a combination formulation from one reservoir and an individual drug from the second. The Asian rights to the Duohaler® technology are being transferred to our joint venture, Kinnovata.


GyroHaler® multi-dose inhaler



# Innovative

Creating innovative solutions to development issues in airway-related diseases whether through know-how and expertise or in the development of new technologies.

# Business review: Capabilities

## Pharmaceutical development services

Vectura's pharmaceutical development services revenues are generated by providing specialist product development services to other pharmaceutical companies, primarily licensing partners, to continue the development of products or technologies licensed from Vectura until complete transfer has been achieved.

## Commercial and business development

Vectura's Commercial team, responsible for business development and licensing, maintains good relationships with international pharmaceutical companies and undertakes market analysis for all products under development. In addition, the team provides the market analysis and competitor information that is required to identify valuable new product opportunities. The major licensing deals Vectura has concluded to date demonstrate the strength of the Group's commercial and business development skills.

## Development

Vectura's Development team has demonstrated its ability to develop products through stages of pre-clinical and clinical development. The team supports the development of Vectura's own products as well as some of those developed by our partners. Key functions include liaison with thought-leaders, clinical investigators and experts in the design of clinical trials (and associated pre-clinical development programmes), and the selection and management of specialist airway and other clinical research organisations (CROs) responsible for the conduct of clinical trials.

## Regulatory affairs

Vectura has experience in global pharmaceutical product registration and inhaled product development. Vectura has regulatory support for its own programmes and for those of its partners, thus ensuring that it has the data requirements to ensure timely approvals. Vectura prepares and maintains Clinical Trial Authorisations (CTAs) and prepares regulatory responses to questions on a worldwide basis as required. Submission of dossiers and liaison with individual regulatory authorities is also undertaken as appropriate.

## Quality

Quality in a pharmaceutical development environment ensures that the clinical supplies produced and the data intended to support regulatory submissions are generated in compliance with Good Pharmaceutical Manufacturing Practice (GMP), the principles of Good Laboratory Practice (GLP) and Good Clinical Practice (GCP), collectively referred to as GxP.

Vectura has a Manufacturer's Authorisation for Investigational Medicinal Products – MIA(IMP)33496 – at its Chippenham facility from the Medicines and Healthcare products Regulatory Agency (MHRA). An MIA(IMP) is a requirement of the EU Clinical Trials Directive, now embodied in national legislation, and allows for manufacture, assembly, certification and release of clinical trial supplies by the Group's Qualified Person.





Vectura is also certified under ISO 13485:2003 for the design and manufacture of inhaler products. In order to achieve the ISO 13485 certification, Vectura's device engineering and Quality Management System were inspected by an authorised quality standards organisation (Lloyds Register Quality Assurance), which found the quality system to be of sufficiently high standard to allow Vectura to self-certify its inhaler devices as being fit for market use in Europe.

## Manufacturing operations

The Manufacturing Operations team is responsible for the late-stage manufacturing of Vectura's technologies and airway products, and ensures that such products can be validated and commercialised successfully in client or contract manufacturing facilities. The team is responsible for global clinical supply chain operations as Vectura's products are distributed worldwide.

Vectura's strategy is to produce clinical trials supplies up to pilot-plant scale. The Group then uses contract manufacturing organisations for larger-scale manufacturing for late-stage development and commercial supply, as well as for some smaller-scale manufacturing where it is more economical to do so.

## Intellectual property

Vectura's portfolio of intellectual property is a valuable asset that is fundamental to success, and the Group aims to secure registered protection for all aspects of its products, processes and technology platforms.

Vectura's extensive patent portfolio consists of patent families relating to various pharmaceutical technologies, including inventions made by the Group's researchers as well as inventions the Group has acquired or licensed from third parties. The Group actively protects, maintains and defends this patent estate. Vectura also maintains additional intellectual property rights including trademarks, design rights and know-how.

Value continues to be obtained from Vectura's intellectual property portfolio from licensing IP rights for the development of inhalation and non-pulmonary products.

## Facilities

Vectura operates from two facilities in the UK. There are approximately 64,000 square-feet of laboratory, office, warehouse and manufacturing facilities in Chippenham, Wiltshire. These facilities are approved for GMP manufacturing of Investigational Medicinal Products for clinical trials. On the Cambridge Science Park, Vectura occupies a 4,200 square-foot laboratory and device engineering unit.

# Business review: Key performance indicators

## Loss reduction and revenue generation

Loss after taxation over the last three years is as follows:

| Year ended | Loss £m | (Increase)/ decrease £m |
|---|---|---|
| **31 March 2013** | **5.9** | **(1.5)** |
| 31 March 2012 | 4.4 | 4.4 |
| 31 March 2011 | 8.8 | 1.4 |

Revenues generated over the last three years are as follows:

| Year ended | Revenue £m | (Decrease)/ increase % |
|---|---|---|
| **31 March 2013** | **30.5** | **(7.6)** |
| 31 March 2012 | 33.0 | (23.0) |
| 31 March 2011 | 42.9 | 7.0 |

## Cash management

This involves the management of the funding received and the cash resources available. The operational cash is defined by reference to the cash flow statements as being the addition of the net cash outflow from operating activities and the cash inflows from investing and financing activities excluding cash inflow/ outflow on acquisitions. These key performance indicators (KPIs) for the three years to 31 March 2013 are as follows:

| Year ended | Increase/ (decrease) in cash £m | Cash inflow/ (outflow) from financing activities £m |
|---|---|---|
| **31 March 2013** | **(5.4)** | **0.6** |
| 31 March 2012 | 1.1 | 2.5 |
| 31 March 2011 | 10.3 | 0.2 |

## Progress with collaborative partners and licensees for the development and commercialisation of products

Vectura continued to progress the development and commercialisation of programmes partnered in earlier years including NVA237 ($12.5m of milestones received in relation to European and Japanese approval) and QVA149 ($5m EU filing milestone received).

## Developing our product pipeline

Vectura continues to evaluate new products arising from internal development activities as well as in-licensing and co-development opportunities.

## Maintaining and strengthening our intellectual property portfolio

Vectura has continued to build its IP portfolio in line with its commercial objectives. We have secured grants of important US and European patents covering future and current commercial products in these territories.



# Business review: Risk management

The Group's business involves exposure to a number of risks, many of which are inherent in pharmaceutical product development. Risks particular to the Group include the following.

## Industry risk

The nature of pharmaceutical development is such that drug candidates may not be successful owing to an inability to demonstrate in a timely manner the necessary safety and efficacy in a clinical setting to the satisfaction of appropriate regulatory bodies, such as the European Medicines Agency (EMA) in Europe and the Food and Drug Administration (FDA) in the US. The Group may be unable to attract, by itself or from partners, the funding necessary to meet the high cost of developing its products through to successful commercialisation. The Group's response to industry risk is detailed in the responses to the specific risks identified below.

## Clinical and regulatory risk

Drug substances may not be stable or economic to produce. Unacceptable toxicities or insufficient efficacy in the chosen indication may cause the medicine to fail or limit its applicability. Lack of performance by third-party clinical research organisations or an inability to recruit patients to clinical trials may cause undue delays in clinical trial results. Clinical and regulatory issues may arise or changes to the regulatory environment may occur that lead to delays, further costs, reduction in the commercial potential of a product in development, or the cessation of programmes. Ethical, regulatory or marketing approvals may be delayed or withheld or, if awarded, may carry conditions unacceptable for further development or commercial success. The Group's manufacturing facilities and those of its third-party manufacturers are subject to regulatory requirements and licensing and there can be no assurance that such facilities will continue to comply with such regulatory requirements. Given the cutting-edge nature of the technology, alternative manufacturing facilities may not be available. The Group manages its regulatory risk by working closely with its expert regulatory advisers and, where appropriate, by seeking advice from regulatory authorities on the design of key development plans for its pre-clinical and clinical programmes.

## Counterparty risk

The Group relies on third-party organisations to conduct its clinical trials and to manufacture certain of its products. If the relationship with or performance of any of these partners is adversely affected, the Group's operations may be adversely impacted. As part of the Group's routine vendor assessment, detailed due diligence is performed on all third-party organisations to establish that such organisations have the required capability, expertise and financial stability to perform the relevant services for the Group. Where possible, alternative third-party suppliers are identified to take over the performance of such services in the event difficulties are experienced with the original vendor.

## Competition and intellectual property risk

Certain companies are developing medicines that may restrict the potential commercial success of the Group's products or render them obsolete. Third-party companies may have intellectual property that restricts the Group's or the Group's partners' freedom to operate. Obtaining licences to intellectual property may not be possible or may be costly and may reduce net royalty income to the Group. The Group's intellectual property may become invalid or expire before its products are successfully commercialised. The Group works closely with its legal advisers and obtains where necessary opinions on the intellectual property landscape relevant to the Group's product development programmes and manufacturing activities and processes.

## Economic risk

The successful development and commercialisation of medicines carries a high level of risk and the returns may be insufficient to cover the costs incurred. Restrictions on health budgets worldwide or on the prices that may be charged for new medicines through competitive or other pressures may limit a medicine's sales potential. The Group may not be able to attract partners on favourable terms or recruit the appropriate calibre of staff to develop or commercialise its products. Any partners may fail to perform or commit the resources necessary to commercialise the Group's products successfully. The Group performs detailed reviews of the development process and progress of projects through trials.

## Financial risk

The Group's activities expose it to a number of financial risks including cash flow risk, credit risk, liquidity risk and price risk. In accordance with policies approved by the Board of Directors, the Group does not use financial derivatives to manage these risks. In addition, the Group does not use financial instruments for speculative purposes.

### Cash flow risk

The Group's activities expose it to the financial risks of changes in foreign currency exchange rates. The majority of the Group's revenues are in euros or US dollars. Where known liabilities arise in these currencies the revenues are retained on deposit in the appropriate currency in order to offset the exchange risk on these liabilities. As at 31 March 2013, the Group had sufficient euro and US dollar reserves to cover its immediate and short-term liabilities in respect of these currencies.

### Credit risk

The Group's credit risk is primarily attributed to its cash and cash equivalents. This risk is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Deposits are made in accordance with the Group's Treasury Policy approved by the Board, which contains strict criteria on minimum credit ratings and maximum deposit size. However, the recent global credit problems could result in the failure of even high credit-rated banks where funds are deposited.

### Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group closely monitors the cash available to the Group, which is invested in a mixture of current and short-term deposit accounts.

### Price risk

The Group is exposed to price risk in respect of its income and expenditure. The Group manages its exposure to price risk through commercial negotiations with customers and suppliers, working closely with its legal advisers on negotiations that are of significant importance to the Group.

## Risk management

The Group's extensive risk management process is detailed in the corporate governance statement section of the business review. The process seeks to identify material risks and to determine how best to manage them. Specific risk managing actions the Group has in place are set out against certain of the risks identified in this section.





The Board is committed to practising good corporate governance as part of its aim to deliver shareholder value. In assessing the appropriate standards of corporate governance the Board takes into account the nature and size of the operation, which comprised at 31 March 2013 seven Directors and over 200 staff operating from two sites in the UK and one office in the US. The Board recognises that it is accountable to shareholders for the Group's standard of governance and is reporting here on its compliance with the code of best practice set out in the UK Corporate Governance Code ("the Code"), a copy of which is available on the Financial Reporting Council's website at **www.frc.org.uk**.

## Statement of compliance with the UK Corporate Governance Code

The Group has, in the Directors' opinion, complied with the provisions set out in Section 1 of the Code throughout the year ended 31 March 2013.

The principles set out in the Code cover four areas: the Board, Directors' remuneration, accountability and audit and shareholder relations. With the exception of Directors' remuneration (which is dealt with separately in the Report on remuneration), the following sets out how the Board has applied such principles.

## The Board

The Code requires every company to be headed by an effective board, which is collectively responsible for its success. As part of its leadership and control of the Group, the Board has an agreed list of matters that are specifically reserved for its consideration. These include business strategy, financing arrangements, material acquisitions and divestments, approval of the annual budget, major capital expenditure projects, risk management, treasury policies and establishing and monitoring internal controls. At each meeting, the Board reviews strategy and progress of the Group towards its objectives, particularly in respect of research and development projects, and monitors financial progress against budget.

Non-Executive Directors (NEDs) are encouraged to meet without the presence of Executive Directors as appropriate. Discussions took place on two occasions during the year and included discussions on each Executive Director's performance.

## Division of responsibilities between Chairman and Chief Executive

The Board has shown its commitment to dividing responsibilities for running the Board and for running the Group's business by appointing Jack Cashman as Non-Executive Chairman; by naming Dr John Brown as Senior Independent Director; by establishing an executive Leadership Team (LT) under the leadership of Chief Executive Dr Chris Blackwell; and by establishing a procedure whereby the LT reports formally to the Board at each Board meeting.

## Board balance and shareholdings

The Code requires a balance of Executive Directors and NEDs (and in particular independent NEDs) such that no individual or small group of individuals can dominate the Board's decision-taking. Four of the seven current Board members are NEDs. The NEDs come from diverse business backgrounds and each has specific expertise, materially enhancing the judgement and overall performance of the Board.

Throughout the year ended 31 March 2013 and up to the date of publication of this report, at least half of the Board, excluding the Chairman, is comprised of NEDs determined by the Board to be independent.

Vectura is committed to working towards achieving meaningful shareholdings in the Group for Executive Directors in order to align their interests to those of the shareholders. Share ownership guidelines of the Company, as applicable to Executive Directors, state that they are expected to maintain or build their holdings to attain an interest in ordinary shares that is equal to their basic salary. The Executive Directors acquired shares in both the years ended 31 March 2013 and 2012.

## Independence of NEDs

As explained in previous annual reports, in order to assist in securing the recruitment and retention of high-calibre NEDs, in the past the Group has, in addition to fees, remunerated NEDs in the form of options to acquire shares in Vectura.

Whilst the Code discourages the granting of share options to NEDs, it nevertheless acknowledges that such grants may be appropriate in a particular company's circumstances. The Board is of the view that the historic granting of share options to NEDs when Vectura Group plc was a private company was appropriate.

It was essential for an emerging pharmaceutical company like Vectura to secure the recruitment and retention of NEDs with the appropriate experience and international perspective in the context of the Group's then stage of development. There are no performance criteria attaching to these options and no share options have been granted to NEDs since 2 July 2004, when the Company was admitted to the Alternative Investment Market (AIM).

The holding of share options by NEDs could be, amongst other things, relevant in determining whether a NED is independent. After detailed consideration, the Board has determined that it does not believe that the holding of share options by its NEDs impacts on their independence in character and judgement. Options granted to NEDs are now exercisable and thus similar to holding the equivalent amount of shares. There is no intention to award any further options to NEDs.

Other factors that may reflect on the independence of a NED include any material business relationships with the Group; however, there were no such relationships during the year, up to the date of this report, or in the prior year.

Serving more than nine years could be relevant to the determination of a NED's independence. Notwithstanding the fact that John Brown and Jack Cashman have been NEDs of the parent company of the Group for 9 and 12 years respectively, the Board has rigorously evaluated their performance and considers that they are fully independent of the Group.

The Board has established a Remuneration Committee, a Nomination Committee and an Audit Committee, whose make-up complies with the requirements of the Code. The terms of reference of each Committee can be downloaded from the Group's website. In accordance with the Smith Guidance on Board Committees, no one other than the Committee Chairman and committee members receives automatic invitations to the meetings. The NEDs serve on the three board committees, as described below. The Board has considered the composition of the committees and concluded that the independence and objectivity of the individual NEDs is not impaired by sitting on these committees.

## The Remuneration Committee

The Code requires that the Remuneration Committee consists of at least two independent NEDs. Dr Foden chairs the Remuneration Committee, its other members being Dr Brown, Mr Cashman and Mr Warner, all of whom are considered to be independent. The Committee has responsibility for making recommendations to the Board on the Group's policy on the performance evaluation and remuneration of Directors and for determining, within agreed terms of reference, specific remuneration packages for each of the Directors and members of senior management, including pension rights, any compensation payments and the implementation of executive incentive schemes. The Committee met formally five times during the financial year ended 31 March 2013 and the Board confirms full attendance by all members at those meetings. No Director is involved in determining his or her own remuneration.

## The Nomination Committee

The Nomination Committee leads the process for Board appointments and makes recommendations to the Board. The Code recommends that a majority of members of the Nomination Committee are independent NEDs. Dr Brown chairs the Nomination Committee and its other members are Mr Cashman, Dr Foden and Mr Warner, all of whom are considered to be independent. The Nomination Committee meets at least once a year, or more if necessary, and has responsibility for considering the size, structure and composition of the Board, retirements and appointments of additional and replacement Directors and making appropriate recommendations to the Board. The Committee met twice during the financial year ended 31 March 2013 and the Board confirms full attendance by all members at those meetings.

## The Audit Committee

The Code recommends that the Board should establish an Audit Committee of at least three independent NEDs, and the Group complies with these recommendations. Mr Warner is the NED with relevant financial experience and who chairs the Audit Committee; its other members are Dr Foden and Dr Brown. The Audit Committee met twice during the year ended 31 March 2013. The Board confirms full attendance by all members during the year. The Audit Committee is responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor and assesses annually the qualification, expertise, resources, remuneration and independence of the auditor, as well as the effectiveness of the audit process.

Any non-audit services that are to be provided by the external auditor are reviewed and approved in advance in order to safeguard auditor objectivity and independence. The Board confirms that there have been no non-audit services that are considered to have impaired the objectivity and independence of the external auditor. Non-audit fees are disclosed in note 5 to the financial statements within this Annual Report.

The Code requires that this Annual Report separately describes the work of the Audit Committee and how it discharges its responsibilities. The Audit Committee focuses particularly on compliance with legal requirements, accounting standards and the Code, and on ensuring that an effective system of internal financial controls is maintained. The ultimate responsibility for reviewing and approving the financial statements in the Interim and Annual Reports remains with the Board. Written terms of reference are modelled on the Code provisions and set out the main roles and responsibilities of the Audit Committee. The Audit Committee reports to the Board, identifying any need for action or improvement on any of these terms of reference and making recommendations as to the steps to be taken. The Board reviews the effectiveness of the Audit Committee annually.

The Audit Committee meets with the external auditor at least twice a year without management present and its Chairman keeps in touch, as required, with the key people involved in the Group's governance, including the Board Chairman, the Chief Executive, the Chief Financial Officer and the external audit lead partner.

Audit Committee members understand the role of the Audit Committee, its terms of reference and their expected time commitments, and have the necessary overview of the Group's business, financial dynamics and risk.

The Audit Committee reviews arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

The Audit Committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

The Audit Committee reviews the financial integrity of the Group's financial statements, including relevant corporate governance statements prior to Board submission.

The Group has a formal whistle-blowing policy, which is available to all staff via the Group's intranet.

## Timeliness and quality of Board information

The Board has sought to ensure that Directors are properly briefed to help them make an effective contribution at the meetings by establishing procedures for distributing Board agendas and papers in a timely manner in advance of meetings. The Board plans formal meetings on a bi-monthly basis, with additional meetings either in person or by conference call when circumstances and urgent business dictate. In the financial year under review, seven regular meetings of the full Board were held.

In addition, the Executive Directors ensure regular informal contact is maintained with Non-Executive Directors. The Board makes full use of appropriate technology as a means of updating and informing all its members.

## Transparency of Board appointments

There are formal, rigorous and transparent procedures for the appointment of new Directors to the Board. Shortlisted candidates are interviewed by the Chairman of the Board and all members of the Nomination Committee, and evaluations of all appropriate candidates are circulated to all members of the Nomination Committee for consideration and approval prior to candidate recommendation to the Board.

## Board performance evaluation

Directors are subject to election by shareholders at the first opportunity after their appointment, and to re-election at intervals of no more than three years thereafter. Non-Executive Directors who have served more than nine years on the board are subject to annual re-election by shareholders in line with the Code. The Board has a process for evaluation of its own performance and that of its committees and individual Directors, including the Chairman. These evaluations are carried out formally once a year and informally on a regular basis throughout the year. The formal evaluation is through an appraisal process. In line with the practice of previous years, the Assistant Company Secretary prepared and circulated a questionnaire for all Board members to answer and comment upon specific questions covering specific topics. These included the responsibilities and the roles of individual directors and the Board as a whole; the conduct of Board meetings and Committees of the Board; the Board's role in monitoring the performance of the Group and corporate governance practices. A detailed anonymised analysis of the replies to the questionnaire, together with conclusions drawn from such analysis, was prepared by the Assistant Company Secretary and considered by the Board.

The performances of Mr Cashman, Dr Brown, Mr Warner and Dr Blackwell who are being proposed for re-election at the Annual General Meeting (AGM), have been so evaluated and it has been determined that they continue to perform effectively and show full commitment to their roles on the Board.

All Directors have service agreements with indefinite terms, with 12 months' notice for Executive Directors and three months' notice for Non-Executive Directors.

## Accountability and audit

The Board is required by the Code to present a balanced and understandable assessment of the Group's position and prospects. In relation to this requirement reference is made to the Statement of Directors' responsibilities for preparing financial statements. The independent auditor's report includes a statement by the auditor on its reporting responsibilities.

Measures to ensure the auditor's independence include:

- approving engagements with independent audit firms and fees for audit, audit-related and non-audit services;
- full consideration being given to alternative suppliers of services, before the award of contract for non-audit services; and
- disclosing the extent and nature of non-audit services in the notes to the financial statements.

## Maintenance of a sound system of internal control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Group's internal controls are regularly reviewed as part of the risk management process. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The concept of reasonable assurance recognises that the cost of a control procedure should not exceed the expected benefits.

There have been no significant internal control failings or weaknesses throughout the year ended 31 March 2013 and up to the date of publication of this report.

The Group's organisational structure has clearly established responsibilities and lines of accountability. Employees are required to follow clearly defined internal procedures and policies appropriate to the business and their position within the business.

The Group endeavours to appoint employees with appropriate skills, knowledge and experience for the roles they undertake.

The Board has shown its commitment to formal and transparent arrangements for internal control by, amongst other things, reviewing the Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing (formalised in the grievance procedure and the whistle-blowing policy circulated to all employees). In addition, the Group operates certain controls specifically relating to the production of consolidated financial information, covering operational procedures, validation and review.

Documented quality procedures are in place to ensure the maintenance of regulatory compliance. These are subject to periodic review to ensure current standards of quality compliance are maintained. A quality group monitors compliance with Good Laboratory Practice, Good Clinical Practice and Good Manufacturing Practice through the implementation of a compliance programme for in-house and contracted-out activities. The Group has a formal Health and Safety Committee, comprising appropriate members of management and other employees, to be responsible for these issues. The Group has formal procedures to ensure appropriate security of documents and proprietary information. Lean techniques addressing laboratory and office inefficiencies have also been adopted.

The Group regularly reviews its portfolio of insurance policies with its insurance broker to ensure that the policies are appropriate to the Group's activities, size and exposures.

A comprehensive budgeting system allows managers to submit detailed budgets, which are reviewed and amended by Executive Directors prior to submission to the Board for approval. At the end of each quarter a forecast is prepared in the same level of detail as the budget. Actual results against budget and forecast, highlighting variances, are prepared for managers and the Board.

## Risk assessment review

An ongoing process for identifying, evaluating and managing the significant risks that are detailed in the risk factors section of this report is in place. The effectiveness of the Group's internal control system has been reviewed by the Board during the year. The Audit Committee's terms of reference include the review of the Group's internal financial control systems and it recommends to the Board any improvements required. Each year, the Audit Committee considers the need for an internal audit function and has concluded that, given the size of the Group's operations at this time, it is not necessary. The Board also carries out reviews of the non-financial control systems.

## Shareholder relations

The Group reports formally to shareholders four times a year by way of the Interim and Annual Reports and two interim management statements, providing a quarterly communication with shareholders. All periodic reports and accounts are made available to shareholders on the Group's website, or are mailed to shareholders who have elected to receive hard copies. Separate announcements of all material events are made as necessary by press releases. The Group's website (**www.vectura.com**) provides an overview of the business including its strategy, products and objectives. All Group announcements are published on the website without delay together with webcasts of both the Interim and Annual results presentations. The terms of reference of each of the Board's three Committees and certain corporate governance documents are also published on the Group's website. These are the main mechanisms by which the Board seeks to present a balanced and understandable assessment of the Group's position and prospects.

Regular communications are maintained with major institutional shareholders and, in particular, presentations are made when half-year and full-year financial results are announced. Dr Brown, as Senior Independent Director, is contactable by shareholders through a link on the Group's website. In addition, all NEDs have developed an understanding of the views of shareholders through corporate broker briefings and review of issued analyst notes. The Chairman seeks to meet with major shareholders on a regular basis. Certain Non-Executive Directors meet with major shareholders as required. Private shareholders are encouraged to express their views and concerns either in person at the AGM or by e-mail.

## Constructive use of the AGM

The Board seeks to use the AGM (together with other forums) to communicate with investors and encourage their participation by arranging business presentations and inviting shareholder questions. The Chairs of the Remuneration, Nomination and Audit Committees are present at the AGM to answer questions through the Chairman of the Board.

**Anne Hyland**
Company Secretary

20 May 2013

## John Patrick (Jack) Cashman

Non-Executive Chairman

Jack Cashman, aged 72, joined the Board of Vectura as Non-Executive Chairman in 2001 and is a member of both the Nomination and Remuneration Committees. Jack brings significant experience to the Board of Vectura, having held a variety of senior executive-level roles in business and having been a Board member for several companies in both North America and Europe. He is currently a Director of Telesat Holdings Inc. (Canada). He is the former Chairman and joint-Chief Executive Officer of RP Scherer Corporation and participated in its leveraged buyout and privatisation and its subsequent successful flotation on the New York Stock Exchange. (RP Scherer was later acquired by Cardinal Health Inc.) His early career was spent in the field of filtration and industrial mineral products. During that time, he took on successively more senior roles in marketing, operations and general management in the UK, Europe, Canada and USA. With this experience, he decided to pursue an entrepreneurial career in the industrial and healthcare sectors.

## Christopher Paul Blackwell BSc PhD

Chief Executive and Executive Director

Dr Chris Blackwell, 51, was appointed Chief Executive of Vectura in February 2004. He joined the Group in 2002 as Chief Operations Officer and Executive Director. He trained as a scientist. Having achieved a first class honours degree in Applied Biology, Chris pursued a PhD at the University of Bath, where in 1988 he completed his doctorate investigating free radicals and reperfusion-induced arrhythmias in heart disease. Throughout both degrees, Chris was sponsored by ICI Pharmaceuticals (now Astra Zeneca), and worked in the fields of respiratory and cardiovascular diseases. Prior to Vectura he was Director of Drug Development and an Executive Director at Scotia Pharmaceuticals Ltd, which he joined in 1998. He was previously at Hoffmann-La Roche, where he was UK Director, Global Project Management, and before that, at Glaxo in the department of Clinical Pharmacology.

## Anne Philomena Hyland BBS FCA FITI

Chief Financial Officer and Company Secretary

Anne Hyland, 52, was appointed Chief Financial Officer, Company Secretary and Executive Director of Vectura in March 2002. Prior to this she was a Director of Corporate Finance at Celltech Group plc. Other positions held at Celltech included Group Financial Controller and Finance Director for the Celltech/ Medeva UK Division. She joined Celltech following the merger with Medeva plc, where she was Finance Director for the UK Division. Previously she was the Medeva Group Financial Controller where, through a period of rapid growth, she was responsible for managing treasury, tax, internal and external reporting, and acquisition and disposal activity. Anne joined Medeva from KPMG, London, where she was an audit manager and gained exposure to corporate finance, advisory and due diligence work. She has a Business Studies degree from Trinity College, Dublin, and is a Fellow of the Institute of Chartered Accountants, Ireland and a Fellow of the Institute of Taxation, Ireland and is also a member of the Primary Markets Group of the London Stock Exchange. She is also a Trustee of Sustrans, the charity that has created the National Cycle Network.



## Trevor Michael Phillips BSc PhD MBA

Chief Operations Officer and President of US Operations

Dr Trevor Phillips, 52, joined the Board on 1 June 2012. Trevor, was appointed Chief Operations Officer in July 2011, having joined Vectura in January 2010 as President of US Operations. Prior to joining Vectura he gained extensive international experience in organisational leadership, management and pharmaceutical drug development in a number of senior roles, including positions as CEO and President of the US publicly held company, Critical Therapeutics Inc, following six years as the Company's Chief Operating Officer. During his time at Critical Therapeutics, Trevor was involved in setting up commercial partnerships, product in-licensing and out-licensing, managing drug development and NDA filings, commercial product manufacturing, and mergers and acquisitions. Between 1986 and 2002 Trevor held a number of management positions at Sepracor, Scotia Pharmaceuticals, Accenture, GlaxoWellcome Research and Development and Simbec Research Limited. Trevor trained as a microbiologist at the University of Reading, obtaining a PhD in microbial biochemistry from the University of Wales in 1986. He was awarded an MBA from Henley Management College in 1997.

## John Robert Brown CBE PhD MBA FRSE

Non-Executive Director and Senior Independent Director

Dr John Brown, 58, joined the Board of Vectura as Non-Executive Director and Senior Independent Director in 2004 and chairs the Nomination Committee as well as being a member of the Remuneration Committee. John is Chairman of CXR Biosciences Ltd, Mode Diagnostics Ltd, The Cell Therapy Catapult and the Roslin Foundation. He also chairs the Life Science Advisory Board for the Scottish Government. He was previously Chairman of BTG plc and Axis-Shield plc. Until late 2003, John was Chief Executive of Acambis plc, a leading producer of vaccines to treat and prevent infectious disease. John is an Honorary Professor of Edinburgh University and is a Fellow of the Royal Society of Edinburgh.

## Susan Elizabeth Foden MA DPhil

Non-Executive Director

Dr Susan Foden, 60, joined the Board of Vectura as a Non-Executive Director in January 2007. She chairs the Remuneration Committee and is a member of the Audit and Nomination Committees. She holds a number of Non-Executive Directorships with both public and private companies in the biotech and healthcare field, including Source Bioscience plc, Cizzle Biotechnology Ltd, BerGenBio AS and Evgen Ltd. Prior to this Susan held positions in venture capital and UK biotech companies. From 2000 to 2003 she was an Investor Director with the London-based venture capital firm Merlin Biosciences Limited, and was Chief Executive Officer of the technology transfer company Cancer Research Campaign Technology Ltd from 1987 to 2000. She studied biochemistry at the University of Oxford from where she obtained an MA and a DPhil.

## Neil William Warner BA FCA MCT

Non-Executive Director

Neil Warner, 60, joined the Board of Vectura as Non-Executive Director in February 2011 and is Chair of the Audit Committee. Neil has significant financial and managerial experience in multi-national businesses and is a Non-Executive Director of Dechra Pharmaceuticals plc where he is the Senior Independent Director. He is also Non-Executive Chairman of Enteq Upstream plc, a specialist reach and recovery products and technologies provider to the upstream oil and gas services market. He was Finance Director at Chloride Group plc, a position he held for 14 years until its acquisition by Emerson Electric. Prior to this, he spent six years at Exel plc (formerly Ocean Group plc and acquired by Deutsche Post in December 2005) where he held a number of senior posts in financial planning, treasury and control. He has also held senior positions in Balfour Beatty plc (formerly BICC Group plc), Alcoa and PricewaterhouseCoopers. Neil has an Economics degree from the University of Leeds and is a Fellow of the Institute of Chartered Accountants.

# Directors and governance: Executive management

## Timothy Wright

**BSc PhD MBA**

Commercial Director

Dr Tim Wright, 52, joined Vectura as Commercial Director in March 2005. Prior to joining Vectura he gained a breadth of experience in business development and licensing in a number of senior roles at BTG plc, latterly as Vice President Business Development and Licensing, Oncology, and as Director of Business Development at DevCo Pharmaceuticals, where he was successful in building a portfolio of neuroscience development candidates. Between 1986 and 1999 Tim held a number of management positions at GlaxoWellcome Research and Development, both in Clinical Pharmacology and Medical Operations, and in project management at Simbec Research Limited. Tim trained as a research scientist at London University, obtaining a PhD in neuroendocrinology in 1987. He was awarded an MBA from London Business School's Executive Programme in 1994.

## Stephen William Eason BSc (Eng)

Director of Device Development

Stephen Eason, 55, joined Vectura in 2002 as Director of Device Development. He has overall responsibility for the development of Vectura's inhaler technologies and leads a team of device engineers and designers based in Cambridge. He is also responsible for Vectura's Intellectual Property Group. Stephen joined Vectura from Cambridge Consultants Limited (CCL), where in 1999 he had set up and led CCL's Drug Delivery Devices Group. The team carried out significant product developments in the areas of inhalation, injection and infusion products. Before specialising in drug delivery, Stephen managed a number of healthcare, telecoms and consumer product developments for clients in Europe and the US. Prior to joining CCL, Stephen worked in design and development for Baxter Healthcare. He studied Mechanical Engineering at the Imperial College of Science and Technology, London.

## Karl David Keegan

**BSc MPhil PhD MSc**

Corporate Development Director

Dr Karl Keegan, 46, who joined Vectura in September 2012, is an Irish national who has worked in the healthcare industry for over 20 years. Karl has a BSc in Pharmacology from University College Dublin, an MPhil and PhD in Pharmacology from the University of Cambridge and a Masters degree in Finance from the London Business School. Following postdoctoral research work at Baylor College of Medicine, Houston, Texas, Karl joined SmithKline Beecham as a bench scientist and later moved to a strategic commercial role within the Neuroscience Strategic Product Development team. Upon leaving the pharmaceutical industry, Karl became one of the leading financial analysts covering the biotechnology industry on a global basis. His most recent analyst role was at Canaccord Adams, as Managing Director, UK Head of Equity Research and Global Head of Life Sciences Research. Prior to joining Vectura in 2012, he was CFO of Minster Pharmaceuticals, a publicly listed UK company and most recently CFO of Pharming Group, a company listed on Euronext.



# Directors and governance: Corporate social responsibility statement

The Directors recognise the importance of corporate social responsibility and endeavour to take into account the interests of the Group's stakeholders, including its investors, employees, customers, suppliers and business partners when operating the business. The Group believes that having empowered and responsible employees who display sound judgement and awareness of the consequences of their decisions and actions, and who act in an ethical and responsible way, is key to the success of the business. The Group also endeavours to be honest and fair in its relationships with customers and suppliers and to be a good corporate citizen, respecting the laws of countries in which it operates.

On 15 March 2013 the Company became a member of the FTSE4Good index, a leading investment index for businesses that meet globally recognised corporate social responsibility standards.

## Our people

### Employees

The key to our success is to develop core values within all of our staff which lead to an environment where they believe that what they are doing is making a difference. The core values with which we operate are participation, achievement, trust and respect, innovation and enthusiasm.

Dr Chris Blackwell is the Board member responsible for overseeing responsibility for Human Resources and non-discrimination issues.

During the period under review the rate of staff turnover and absence levels have been below sector norms.

The Group is committed to achieving equality of opportunity in all its employment practices, policies and procedures. Employees are valued highly and their rights and dignity are respected. The Group does not tolerate any harassment or discrimination. The Group is an equal opportunities employer and will continue to ensure it offers career opportunities without discrimination. The equal opportunities policy covers all permanent and temporary employees including Non-Executive Directors, all job applicants, agency staff, associates, consultants and contractors.

### Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. With regard to existing employees and those who may become disabled, Vectura's policy is to examine ways and means to provide continuing employment under its existing terms and conditions and to provide training and career development, including promotion, wherever appropriate.

### Family-friendly employment policies and employee welfare

The maternity and paternity leave and pay policies conform to statutory requirements. Flexible approaches to return to work after maternity leave and part-time or non-standard hours and work patterns are considered where viable.

### Employee involvement

The Group recognises that in an industry based on innovation and research and development, its employees are some of its biggest assets and it seeks to communicate and, where appropriate, consult with them on matters affecting them as employees.

During the year, Vectura continued its policy of providing employees with information about the Group through regular presentations by Directors, management and the Group's intranet. In addition, regular meetings are held between management and employees to allow for a free flow of information and ideas. Staff forums are established to comply with the requirements of Information and Consultation of Employees Regulations 2004; the forums ensure implementation of the EC Directive.

### Training and development

The Group provides training and development appropriate to individual needs and offers remuneration packages (including pensions, private medical, permanent health and life insurance) and a working environment that are designed to be both fair and competitive with larger companies within the industry.

Vectura is positive about developing all employees for current and future roles. The Meakin Scholarship award is open to all employees and is awarded to employees who wish to study a "developmental course" in their own time. Any course that would significantly enhance an employee's skills whilst benefiting Vectura is considered. Vectura has supported a variety of programmes including Pharmaceutical Industrial Advanced Training (PIAT) programme to MSc level, GCSE English and A level Chemistry.

### Employee share ownership

Participation in the Group's share option schemes is extended to all of the Group's employees. More details are provided in the Report on remuneration.

## Community investment

Vectura considers that its most important contribution to the communities within which it operates is to provide high-quality employment opportunities and to develop therapies to help patients with diseases.

As the Group is currently loss making it is not considered appropriate to make financial donations to charitable or community activities. However, it is the ethos of the Group to promote an environment of employee support and participation in initiatives that provide in-kind benefits where we believe we have a meaningful contribution to make. Where possible we aim to facilitate and support employee fund-raising events, such as:

- We support the STEM (Science, Technology, Engineering and Mathematics) Initiative which is a major UK Government initiative. Within this initiative our staff actively help local schoolchildren, being tomorrow's workforce, to gain the capabilities and skills to flourish in a scientific environment such as ours.
- An annual award of additional holiday is allocated to a small number of employees as a part of a staff initiative to volunteer for unpaid community or charitable services.
- Staff are encouraged to participate in nationwide charity campaigns, examples of which include Macmillan Coffee Mornings, Comic Relief and Movember. Where appropriate, group facilities are made available to staff members organising such events.
- Quarterly visits to the Chippenham site (where approximately 90% of the employees are based) by the Blood Transfusion Services are facilitated and employees are encouraged to take the time to donate.

## Health and safety

The Group considers health and safety to be a priority in its workplaces. Vectura has a Health and Safety Committee to review health and safety standards within the Group. Dr Trevor Phillips is the board member to whom responsibility for health and safety issues has been delegated.

The Group provides specialist ongoing training to individuals who are responsible for health and safety, and general health and safety training is delivered to all staff via e-learning courses.

The Group continuously monitors its health and safety practices to ensure that safety management procedures are robust and in line with industry best practice.

The Group has an excellent safety record and there have been no major incidents or accidents reported to the Health and Safety Committee during the year (2011/12: none).

## Environment

We are committed to minimising the impact of our activities on the environment and energy efficiency is the most important means of climate protection currently available to the Group. Due to the nature of its activities, Vectura considers that it has a low environmental impact.

Vectura has adopted an environmental policy, which can be found on our website. The policy sets out a commitment to reducing gas and electricity consumption and greenhouse gas emissions per employee from quantified levels. Quantifiable targets are established and we monitor performance against these targets. Vectura's current target is to reduce energy consumption and greenhouse gas emissions per employee by 3% per annum and when allowance is made for the new premises which became fully operational in the reporting year to facilitate future growth; this has been achieved for electricity-based emissions of the Group in 2012/13.

Vectura's operational goals include an objective to reduce our carbon footprint by controlling the use of key sources of energy and materials on a per capita basis and the Group continues to adopt the principles of environmental management systems to ISO14001 standards. A Green Action Team meets regularly and has responsibility to pursue objectives for environmental sustainability and carbon reduction. Use is made of the Company intranet to communicate widely to all staff on environmental affairs and to receive their views and suggestions on green policy for consideration and discussion within the Green Action Team.

Vectura is committed to undertaking an environmental impact review of new product developments, site development and of merger and acquisitions. During the year refurbishment work was undertaken at our Chippenham site, which included installation of solar panels, air source heat pumps and movement sensing lighting.

Vectura reports its environmental performance under the Carbon Disclosure Project (CDP). CDP plays a vital role in communicating information about greenhouse gas emissions and related activities reported by the UK's largest companies, enabling investors and the public to take informed action against climate change. There have been no contentious issues or other matters having economic, legal, reputational or environmental consequences that have arisen in the year under review.

Ms Hyland is the board member to whom responsibility for environmental issues has been delegated. She is also a Trustee of Sustrans, a leading UK charity enabling people to travel by foot, bicycle or public transport for more of their journeys.

## Waste management

Initiatives to effectively manage and reduce waste have been implemented throughout the Group, including recycling of all paper waste, aluminium cans, printer toners/cartridges and redundant mobile telephone handsets. Induction procedures for all newly recruited staff include sufficient information to ensure a high level of compliance with our standards. We aim to comply with all legislation in this area, including using registered waste disposal contractors.

## Ethical and social policies

The Group's principal activities are undertaken within the pharmaceutical industry, which is subject to a highly regulated ethical framework with which the Group complies. In addition, the Group seeks to conduct its activities generally in accordance with good business ethics.

Vectura has adopted a clear anti-bribery policy and communicated it to all employees so they can recognise and avoid the use of bribery and report any suspicion for rigorous investigation. Political donations are prohibited and advance approval from management is required before management and staff may accept or solicit a gift of any kind.

Through the use of a risk register the Group has identified specific company-wide risks that include those in the key activities of intellectual property, medical and regulatory affairs, clinical development, pharmaceutical operations and device development.

## Conclusion

Corporate social responsibility matters are considered as part of the risk assessments of the Group and are part of the considerations when setting remuneration targets.

## Dear Shareholder

On behalf of the Board, I am pleased to present Vectura's Report on remuneration for the year ended 31 March 2013. This report will be put forward for your consideration and approval at the 2013 Annual General Meeting (AGM).

The Government's Business, Innovation and Skills Department (BIS) has confirmed that there will be a number of changes designed to clarify and improve the reporting of remuneration by public limited companies. Whilst this guidance has not yet been fully implemented, the Remuneration Committee (the "Committee") has decided to incorporate a number of the proposed changes in this Report on remuneration. The Committee believes that these changes will assist shareholders in understanding how the Group's remuneration strategy supports overall corporate strategy and performance.

This has been a year of significant achievement for Vectura, with the EU approval and launch of Seebri® Breezhaler® by our partner Novartis and the filing of a marketing authorisation with the European Medicines Agency (EMA) of QVA149. Novartis also received approval for Seebri® Inhalation Capsules and subsequently launched the product in Japan, the world's second largest pharmaceutical market. In response to these commercial successes, the Committee has approved a bonus payment to the Executive Directors as detailed in the full report. For this financial year, and on an ongoing basis, the award of bonuses to the Executive Directors is dependent on achievement of both corporate goals and personal objectives.

Executive Directors did not receive salary increases during the year ended 31 March 2013. During 2012/13 the Committee approved increases on base salary for the Executive Directors for the year ended 31 March 2014, taking into account average salary increases for employees across the Group.

A new Long-Term Incentive Plan (LTIP) scheme was approved by theshareholders at the 2012 AGM. The Committee believes that this new scheme will continue to promote a culture of strong corporate performance within the Group. In addition, during the year, the Committee has implemented share ownership guidelines for all Executive Directors and senior management. These are designed to align the interests of senior management with those of Vectura's shareholders.

During the coming year, the Committee will ensure that Vectura's remuneration policies continue to be aligned with shareholders' interests and that they provide the right framework to attract, motivate and retain executives of the calibre required to meet the Group's objectives.

**Dr S E Foden**
Chair of the Remuneration Committee





## Introduction

This report has been prepared in accordance with the Accounting Regulations of the Companies Act 2006 (the "Act") and complies with the UK Corporate Governance Code. The report also meets the relevant requirements of the Listing Rules of the Financial Conduct Authority and describes how the Board has applied the principles relating to Directors' remuneration under the Directors' Remuneration Report Regulations 2002. As required by the Act, a resolution to approve this report will be proposed at the AGM of the Group at which the financial statements will be approved. In preparing this year's report, the Committee has also paid regard to the new reporting requirements announced by BIS that will come into force with effect from the year ended 31 March 2014, and has sought to adopt a number of the new requirements where it is practical to do so whilst still remaining compliant with the existing regulations. This year's report consists of two sections: an unaudited Remuneration policy section, which describes the Group's policy for the remuneration of Executive and Non-Executive Directors (NEDs) for the coming year, and an Implementation section, which provides details of the Directors' emoluments, shareholdings, long-term incentive awards and pensions for the year ended 31 March 2013. The elements of the Implementation section which are subject to audit have been clearly identified.

## Remuneration policy section (unaudited)

The main principles of the Group's remuneration policy, which remain unchanged from the prior year, are set out below:

| Element | Purpose and link to strategy | Policy |
|---|---|---|
| Basic salary | To recruit and retain executives of the highest calibre who are capable of delivering the Group's strategic objectives | • Vectura's policy is to provide remuneration generally at levels that are broadly aligned with the mid-points for equivalent roles in comparable companies in the UK, adjusted to reflect company size and complexity<br>• Base salaries are reviewed on an annual basis and are not linked to performance. In determining base salaries, the Committee takes into consideration the relevant skills, experience and performance of the individual and the Group as well as pay and conditions throughout the Group |
| Annual bonus | An annual bonus rewards the achievement of stretching objectives that support the Group's corporate goals and the delivery of the business strategy | • A bonus scheme is in place for all employees, which is designed to incentivise individuals to achieve the Group's goals. For this year and future years performance targets for Executive Directors include the Group's corporate goals as well as challenging individual objectives<br>• Bonuses are limited to a maximum of 100% of basic salary for each Executive Director. Bonuses are awarded against achievement of agreed objectives and at the discretion of the Remuneration Committee<br>• The Remuneration Committee will take into account overall corporate performance in determining the final bonus awarded |
| Pensions | The Group aims to provide market competitive retirement benefits | • The Group operates a money purchase scheme and all employees, including Executive Directors, are invited to participate. The Group contributes up to 20% of basic salary to the Group Personal Pension Plan in the name of Executive Directors |
| Benefits | Benefits in kind offered to Executive Directors are provided on a market competitive basis, to assist with the retention and recruitment of staff | • The Group extends personal medical cover and life assurance to all employees<br>• Under certain circumstances the Group will offer relocation allowances to employees |

Table continues on following page

| Element | Purpose and link to strategy | Policy |
|---|---|---|
| Long-Term Incentive Plan (LTIP) | The Remuneration Committee believes that a key component of the overall remuneration package is the provision of equity awards to senior executives through the LTIP, which is designed to develop a culture that encourages strong corporate performance on an absolute and relative basis | • Conditional awards for shares in Vectura Group plc can potentially be made at a value equal to 100% of basic salary to Executive Directors. Awards of up to 200% may be permitted under exceptional circumstances<br>• Awards are subject to challenging performance measures based on relative Total Shareholder Return (TSR) measured over a three year period and are subject to an underpin based on the Committee's assessment of the Group's underlying performance. The current LTIP scheme rules also include a provision for claw-back of awards in the event of material misstatement of financial results or environmental, social or corporate governance issues<br>• The performance conditions for previous long-term incentive awards are described in the Implementation section |
| Share ownership guidelines | Share ownership guidelines for Executive Directors and senior employees are designed to align the interests of senior management to those of Vectura's shareholders | • In accordance with best practice, Executive Directors are required to retain at least half of any share awards vesting as shares (after paying any tax due) until they have a holding of Vectura Group plc shares equivalent to at least 100% of their basic salary |
| Fees to Non-Executive Directors | Set at a level that is sufficient to attract and retain high-calibre non-executives | • Non-Executive Directors receive fees paid in cash, with additional fees received for chairing committees of the Board<br>• When reviewing fee levels, account is taken of market movements in Non-Executive Director fees, Board committee responsibilities and ongoing time commitments<br>• The Non-Executive Directors do not participate in any performance related incentive schemes |

## How shareholders' views are taken into account

The Remuneration Committee considers shareholder feedback received in relation to the Annual General Meeting each year and guidance from shareholder representative bodies more generally. Shareholders' views are key inputs when shaping remuneration policy.

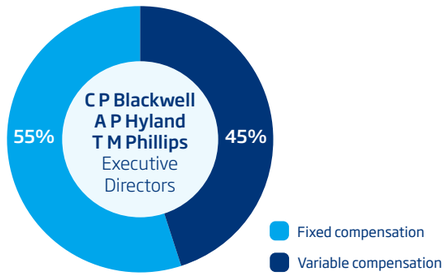
During the year, the Committee engaged with its largest shareholders regarding the introduction of the 2012 LTIP.

## Components of the current remuneration package

As outlined in the Remuneration policy, the principal components of remuneration packages are basic salary, short and long-term incentives and pension benefits. Further details in relation to how this policy has been applied during the year, and key terms of the various incentive and benefit programmes are provided in the Implementation section.

The diagram below shows the components of the remuneration package as a percentage of total remuneration. 45% of the Executive Directors' total remuneration is performance-related (2011/12: 50%). The reduction in variable compensation year on year is the result of a reduced share-based compensation charge in the current year.

Balance between fixed and performance-based compensation (variable compensation)






## Directors' service contracts

It is the Group's policy that Executive Directors should have contracts with an indefinite term and which provide for a maximum period of 12 months' notice. This applies to the contracts of Dr Blackwell and Ms Hyland, which were effective from 25 June 2004 and also to Dr Phillips' contract, which was amended with effect from 1 June 2012. Executive Directors are subject to re-election at an AGM at intervals of no more than three years.

Awards made under the Group's LTIP scheme that have not been released at the date the Executive's employment ceases lapse, save in certain good leaver situations. Executives have no entitlement to a bonus payment in the event that they cease to be employed by the Group but may be considered for such an award by the Committee in appropriate circumstances. In addition, in the event of early termination the Committee would seek to ensure that the principle of mitigation applies.

The Executive Directors did not receive any fees in respect of external Non-Executive appointments.

## Non-Executive Directors

All NEDs have specific terms of engagement which are terminable on three months' notice by either party, and their remuneration is determined by the Board within the limits set by the Articles of Association and based on a review of fees paid to NEDs of similar companies. NEDs are not eligible to join the Group's pension scheme, nor do they receive any other benefits. All NEDs are subject to re-election at an AGM at intervals of no more than three years.

The dates of appointment of each of the NEDs serving at 31 March 2013 are summarised in the table below:

| | Date of appointment |
|---|---|
| J P Cashman | 27 March 2001 |
| J R Brown | 13 May 2004 |
| S E Foden | 18 January 2007 |
| N W Warner | 1 February 2011 |

A Board evaluation has been performed and the results of this exercise confirmed that all NEDs were independent, including Mr Cashman and Dr Brown, who have service greater than nine years. Their independence is considered valid due to the major change in the operating activities of the Group during the term of their appointments.

## Implementation section (unaudited information)

### Remuneration Committee

The Committee consists entirely of NEDs and is constituted in accordance with the recommendations of the UK Corporate Governance Code (the "Code"). The Committee is formally constituted with written terms of reference and its main responsibilities are detailed below. Its members for the year ended 31 March 2013 were Dr Foden (Chair), Dr Brown, Mr Cashman and Mr Warner.

**The Committee is responsible for:**

- setting a remuneration strategy that ensures that talented executives are recruited, retained and motivated to deliver results;
- ensuring that the remuneration of the Executive Directors and other senior executives reflects both their individual performance and their contribution to the overall Group results;
- determining the terms of employment and remuneration of the Executive Directors and senior executives, including recruitment and retention terms;
- approving the design and targets for any annual incentive schemes that include the Executive Directors and senior executives;
- agreeing the design and targets, where applicable, of all share incentive plans requiring shareholder approval;
- assessing the appropriateness and subsequent achievement of the performance targets related to any share incentive plans;
- recommending to the Board the fees paid to the Chairman. The Chairman is excluded from this process; and
- the selection and appointment of the external advisers to the Committee to provide independent remuneration advice where necessary.

The Committee members have no personal financial interests other than as shareholders in matters to be decided, no potential conflicts of interest arising from cross directorships and no day-to-day involvement in running the business. No Director plays a part in any discussion about his or her own remuneration.

The fees of the NEDs are determined by the Board on the joint recommendation of the Chairman and the Chief Executive.

The Committee met formally five times during the year ended 31 March 2013.

A summary of the matters considered at each of those meetings is set out in the following panel.

| Meeting | Agenda items |
|---|---|
| April 2012 | • Review of performance against corporate goals for 2011/12<br>• Review of share-based incentive arrangements for all employees<br>• Review of the salary levels for the Executive Directors and other members of the Leadership Team, ensuring that these are aligned appropriately both internally and externally<br>• Review of remuneration for Non-Executive Directors and the Chairman<br>• Approval of overall pay levels for 2012/13 for the Group as a whole |
| July 2012 | • Review of proposal for 2012 Long-Term Incentive Plan (LTIP) scheme |
| September 2012 | • Review of Shareholding policy for Executive Directors<br>• Review and approval of LTIP awards<br>• Interim review of corporate goal performance for 2012/13 |
| December 2012 | • Approval of a new staff bonus scheme for the year ended 31 March 2014 and future years |
| February 2013 | • Review of the current status of share option schemes<br>• Approval of Shareholding policy for Executive Directors |

## Committee advisers

In determining the Group's current policy, and in constructing the remuneration arrangements of each Executive Director and senior employee, the Board, advised by the Committee, aims to provide remuneration packages that are competitive and designed to attract, retain and motivate Executive Directors and senior employees of the highest calibre.

To achieve this objective, the Committee takes account of information from both internal and independent sources, including New Bridge Street (a brand of Aon Hewitt Ltd, part of Aon plc), and PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP also advised on the structure of the new bonus scheme, which will be introduced for the 31 March 2014 financial year.

## Statement of shareholder voting at 2012 AGM

At last year's AGM held on 18 September 2012, approval of the Report on remuneration and the approval of the 2012 LTIP received the following votes from shareholders:

| | For (including discretionary votes) | Against | Total votes cast (for and against excluding withheld votes) | Votes withheld* | Total votes cast (including withheld votes) |
|---|---|---|---|---|---|
| To approve the remuneration report | 245,155,337 | 1,059,676 | 246,215,013 | 6,264,333 | 252,479,346 |
| % of votes cast | 99.57 | 0.43 | 100 | | |
| To approve the LTIP | 248,711,399 | 169,512 | 248,880,911 | 3,598,435 | 252,479,346 |
| % of votes cast | 99.93 | 0.07 | 100 | | |

*A vote that is withheld does not constitute a vote in law and has not therefore been included in the totals above.



## Basic salary

For the year ending 31 March 2014 the Committee recommended that the salaries of Dr Blackwell, Ms Hyland and Dr Phillips should be £337,000, £218,000 and £243,000 (using an average exchange rate of £/$ 1.58) respectively. The Committee has reviewed the level of fees paid to Non-Executive Directors and has recommended that the fees of Mr Cashman, Dr Foden and Mr Warner should be increased to reflect the increased demands and time required in fulfilling their duties as the Chair of the Board, Chair of the Remuneration Committee and Chair of the Audit Committee respectively. It is recommended that the fees of Mr Cashman should be increased by £20,000 per annum and the fees of Dr Foden and Mr Warner should be increased by £5,000 per annum.

## Performance-related cash bonuses

All employees are eligible for an annual discretionary cash bonus, whereby performance objectives are established at the beginning of the financial year by reference to suitably challenging corporate goals. Goals typically include revenue generation, development pipeline progress, partnering successes and control of cash expenditure, and are weighted towards goals with the highest corporate significance. Performance-related payments may be paid annually, dependent upon achievements measured against corporate goals. In addition, for the first time this year a significant percentage of the bonus potential was set against personal objectives for the Executive Directors and senior management. Bonus payments are not pensionable. The scheme is offered to all staff below board level with bonus award entitlements ranging between 10% and 50% of salary depending on grade. Cash bonuses are limited to a maximum of 100% of basic salary for each Executive Director. For the year ended 31 March 2013 the performance objectives against which bonus payments were calculated were as follows:

| Performance metric | Weighting as % of maximum bonus potential | Level of bonus awarded as % of metric (% of full bonus) | Commentary (full disclosure has been restricted due to commercial sensitivity) |
|---|---|---|---|
| Identify and execute strategic growth opportunities | 48% | 48% (23%) | • Significant work completed to establish the Kinnovata joint venture during the year |
| Secure current and future product development value | 16% | 44% (7%) | • Significant milestones delivered for existing licensing agreements<br>• Patents filed in relation to new technologies |
| Deliver financial performance in line with internal targets | 16% | 100% (16%) | • Financial results were ahead of internal targets set |
| Personal objectives | 20% | 65%–75% (13%–15%) | • Challenging personal objectives were set for all Executive Directors |
| Total bonus payment as a % of salary | | 59%–61% | |

The Committee thus assessed that a bonus of between 59% and 61% (2011/12: 53%) of salary was appropriate when judged by the achievement of the above metrics and that this was confirmed when looking at a broader picture of the Group's corporate performance over the period.

Given the implementation of formal share ownership guidelines, the Remuneration Committee has not required any of the bonus payment for this year to be deferred into shares.

## Long-Term Incentive Plan

There were no LTIP awards granted under the 2005 Long-Term Incentive Plan in the 2012/13 financial year.

No shares were released from the award made on 21 May 2009 because the performance criteria were not met.

At the 2012 AGM, shareholders approved a new LTIP, the Vectura Group plc 2012 Long-Term Incentive Plan (the "2012 LTIP scheme").

The awards granted under the 2012 LTIP scheme on 18 September 2012 (as detailed in the Directors' LTIP awards table on page 51), and any subsequent awards, are subject to relative TSR measured over a three-year period against two comparator groups (each representing 50% of the total award), as set out in the table below:

| | TSR performance *vs* FTSE SmallCap over three years (% of award vesting) | TSR performance *vs* Euro Stoxx Pharmaceuticals & Biotechnology Index over three years (% of award vesting) |
|---|---|---|
| Below median | 0% | 0% |
| Median | 12.5% | 12.5% |
| Between median and upper quartile | Between 12.5% and 50% on a straight-line basis | Between 12.5% and 50% on a straight-line basis |
| Upper quartile or above | 50% | 50% |

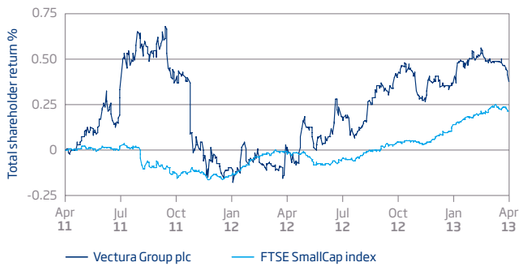
- Performance against the conditions will be measured by the Committee's independent advisors.
- Vesting of awards is also subject to an "underpin" enabling the Committee to decrease or increase the percentage of the award that vests based on its assessment of the Group's underlying performance over the period against a range of factors including the Group's underlying financial performance, absolute shareholder returns and progress against milestones. Any exercise of this discretion by the Committee will be fully disclosed to shareholders with an explanation of the Committee's reasoning in the Report on remuneration for the relevant year. To the extent that the performance conditions are not met in full at the end of the three-year performance period, awards lapse.
- Consistent with current best practice, the Committee has the power to claw-back all or part of the awards/payments for one year following vesting in the event of a material misstatement, error in the calculation of performance against the performance conditions of the plan or any other matter that it deems relevant to this provision.



### Performance graph

The following graph shows Vectura Group plc's performance since its initial listing in July 2004, measured by TSR, compared with the performance of the current comparator group of companies in the sector.


The following graph shows Vectura Group plc's performance since 1 April 2011, measured by TSR, compared with the performance of the FTSE SmallCap, as described above. This index was chosen as Vectura is one of the constituent companies and the Committee feels that it is one of the most appropriate against which to measure performance.




### Value Realisation Plan

On 31 October 2008, the shareholders approved the Vectura Group plc Value Realisation Plan (VRP). The VRP operates over a five-year period and expires on 31 October 2013 and will not be renewed. The VRP runs in parallel to the LTIP and provides participants with a share of a predetermined percentage of the total consideration paid for the Group in the event of a change in control. In this event, under the VRP members of the Leadership Team of the Group will be granted a one-off entitlement in the form of units, which convert into ordinary shares in Vectura Group plc, the actual number of shares that convert being linked to the offer price per share achieved. The VRP is triggered upon achievement of a minimum bid price of £1.27 per share, with a maximum number of shares available to participants if the bid price reaches or exceeds £1.77 per share.

### Share Incentive Plan

The Vectura Group plc Share Incentive Plan (SIP) is available to all employees, including Executive Directors, for the purpose of encouraging employees to become shareholders of the Group and to retain their shares over the medium to long term. It introduces share ownership to the employee in three ways: free shares, partnership shares, and matching shares. Vectura Group plc may award free shares annually, employees may contribute up to £125 a month to buy partnership shares out of pre-tax salary, and Vectura Group plc may match any partnership shares purchased with the award of additional matching shares on a one-for-one basis. The SIP is an HMRC approved scheme through which benefits are provided in a tax efficient manner.

### Sharesave Share Option Scheme

Vectura Group plc also operates a Sharesave (SAYE) Share Option Scheme that is open to all employees and Executive Directors alike. Under this Scheme all eligible participants may save up to £250 a month out of net salary for a fixed term of three years, at the end of which they have an option to subscribe for Vectura shares at a discount of up to 20% of the market price set at the launch of each three-year savings contract. Performance conditions do not apply to the SAYE Share Option Scheme.

### Approved and Unapproved Share Option Plans and the EMI Plan

Executive Directors hold options under the Approved and Unapproved Share Option Plans.

Historically, before it was listed, Vectura Group plc granted NEDs share options as part of their remuneration package. At the early stage of the Group's development this was considered to be essential to secure the recruitment and retention of high-calibre NEDs with the appropriate experience. This policy of granting share options to NEDs has not applied since the Group was publicly listed in 2004, and no further share option awards will be made to them. In respect of this matter, reference should also be made to the Corporate governance statement. The options held by the NEDs have vested and are exercisable at any time. The Board does not believe that the retention of these fully vested options in any way compromises the independence of the NEDs concerned.

Historically, no performance conditions have been attached to the options granted under the above schemes. The exercise price is equal to the market value of Vectura Group plc's shares at the time the options are granted.

### Directors' interests in shares and compliance with share ownership guidelines

As a direct link between executive remuneration and the interests of shareholders, the Committee has implemented Shareholding guidelines for all Executive Directors and senior employees. The guidelines require that Executive Directors build up and maintain an interest in the ordinary shares of the company that is equal to their annual salary. At 31 March 2013 C P Blackwell and A P Hyland have exceeded the share ownership guidelines. These guidelines will now apply to T M Phillips following his appointment to the Board. The actual interests in the shares of the Company of the Executive Directors at the balance sheet date are set out below.

The Directors who held office at 31 March 2013 and their interests (in respect of which transactions are notifiable to the Company under the Financial Conduct Authority's Transparency Rules) in the share capital of Vectura Group plc at 31 March 2013 and 31 March 2012 are shown in the table below:

| | 31 March 2013 Ordinary shares of 0.025p each | 31 March 2012 Ordinary shares of 0.025p each | Actual percentage of base salary at 31 March 2013* | Actual percentage of base salary at 31 March 2012* |
|---|---|---|---|---|
| C P Blackwell [1] | 636,267 | 374,717 | 176% | 62% |
| J R Brown [2] | 242,681 | 242,681 | – | – |
| J P Cashman | 946,647 | 946,647 | – | – |
| S E Foden | 11,000 | 11,000 | – | – |
| A P Hyland [1] | 633,423 | 624,849 | 264% | 155% |
| T M Phillips [3] | 13,574 | – | 5% | – |
| N W Warner | 20,800 | 20,800 | – | – |

[1] The holdings of C P Blackwell and A P Hyland include 51,677 ordinary shares of 0.025p each, which are held in the Vectura Group plc Employee Benefit Trust (Share Incentive Plan).
[2] The holding of J R Brown includes 20,457 ordinary shares of 0.025p each, which are held through nominees.
[3] T M Phillips was appointed to the Board on 1 June 2012. The holding of T M Phillips includes 8,574 ordinary shares of 0.025p each, which are held in the Vectura Group plc Employee Benefit Trust (Share Incentive Plan).
* Calculated using the closing share price on the year end date. The closing share price on 31 March 2013 was 90.75p (2012: 54.25p).

There was no change in the Directors' interests between 31 March 2013 and 20 May 2013, the date of this report.

## Implementation section (audited information)

### Directors' remuneration

The remuneration of the individual Directors who served during the year was as follows:

| | Basic salary and fees £000 | Bonuses £000 | Benefits £000 | 2013 emoluments £000 | Pension entitlements £000 | 2013 Total remuneration £000 | 2012 Total remuneration £000 |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| C P Blackwell | 328 | 193 | 2 | 523 | 66 | 589 | 570 |
| A P Hyland | 218 | 129 | 1 | 348 | 44 | 392 | 379 |
| T M Phillips [1] [2] | 189 | 115 | 11 | 315 | 37 | 352 | – |
| **Non-Executive Directors** | | | | | | | |
| J R Brown* | 45 | – | – | 45 | – | 45 | 45 |
| J Cashman | 80 | – | – | 80 | – | 80 | 80 |
| S E Foden* | 40 | – | – | 40 | – | 40 | 40 |
| A J M Richards | – | – | – | – | – | – | 10 |
| N W Warner* | 40 | – | – | 40 | – | 40 | 40 |
| | 940 | 437 | 14 | 1,391 | 147 | 1,538 | 1,164 |

[1] T M Phillips was appointed to the board on 1 June 2012.
[2] T M Phillips is paid in US $; the amount shown above is converted at the annual average exchange rate.
* Included within the NEDs' fees are the fees for chairing committees. Dr Brown received £5,000 for chairing the Nomination Committee and £10,000 for his role as Senior Independent Director. Dr Foden received £10,000 for chairing the Remuneration Committee and Mr Warner received £10,000 for chairing the Audit Committee.

Benefits represent payments for medical insurance. Amounts payable to T M Phillips relate to US medical insurance – T M Phillips also makes employee contributions towards this plan.

Total remuneration is the sum of emoluments plus company pension contributions and the value of long-term incentive awards vesting by reference to performance in the year 2013: nil (2012: nil).

In addition to the above, a nominal gain of £128,010 arose during the year following the exercise of share options by C P Blackwell.

### Options

Directors holding office at 31 March 2013 with options outstanding over ordinary shares of 0.025p were as follows:

| Plan | Options held at 1 April 2012 | Options granted (exercised or cancelled) during year | Options held at 31 March 2013 | Exercise price (p) | Date from which first exercisable | Expiry date |
|---|---|---|---|---|---|---|
| **J Cashman** | | | | | | |
| Unapproved | 680,000 | – | 680,000 | 36.000 | 29/04/04 | 29/04/14 |
| Unapproved | 238,989 | – | 238,989 | 56.000 | 02/07/05 | 02/07/14 (1) |
| Total | 918,989 | – | 918,989 | | | |
| **C P Blackwell** | | | | | | |
| EMI | 277,776 | (277,776) | – | 48.125 | 05/11/05 | 03/11/13 (2) |
| Unapproved | 122,224 | – | 122,224 | 48.125 | 01/10/05 | 01/10/13 |
| Unapproved | 23,376 | – | 23,376 | 48.125 | 11/04/06 | 11/10/13 |
| Unapproved | 1,023,355 | – | 1,023,355 | 36.000 | 29/04/07 | 29/04/14 |
| Unapproved | 716,966 | – | 716,966 | 56.000 | 02/07/05 | 02/07/14 (1) |
| Unapproved | 132,424 | – | 132,424 | 82.500 | 03/08/06 | 03/08/15 (1) |
| Unapproved | 265,493 | – | 265,493 | 93.750 | 09/08/07 | 09/08/16 (1) |
| Unapproved | 271,304 | – | 271,304 | 86.250 | 25/05/08 | 25/05/17 (1) |
| Unapproved | 237,384 | – | 237,384 | 53.500 | 23/05/09 | 23/05/18 (1) |
| Approved | 37,383 | – | 37,383 | 53.500 | 23/05/09 | 23/05/18 (1) |
| SAYE Scheme | 18,987 | – | 18,987 | 47.400 | 01/04/15 | 01/10/15 |
| Total | 3,126,672 | (277,776) | 2,848,896 | | | |
| **J R Brown** | | | | | | |
| Unapproved | 238,989 | – | 238,989 | 56.000 | 02/07/05 | 02/07/14 (1) |
| Total | 238,989 | – | 238,989 | | | |
| **A P Hyland** | | | | | | |
| Unapproved | 196,100 | – | 196,100 | 48.125 | 18/03/05 | 29/07/13 |
| Unapproved | 33,896 | – | 33,896 | 48.125 | 11/04/06 | 11/10/13 |
| Unapproved | 456,335 | – | 456,335 | 36.000 | 29/04/07 | 29/04/14 |
| Unapproved | 358,483 | – | 358,483 | 56.000 | 02/07/05 | 02/07/14 (1) |
| Unapproved | 94,090 | – | 94,090 | 82.500 | 03/08/06 | 03/08/15 (1) |
| Unapproved | 188,640 | – | 188,640 | 93.750 | 09/08/07 | 09/08/16 (1) |
| Unapproved | 192,174 | – | 192,174 | 86.250 | 25/05/08 | 25/05/17 (1) |
| Unapproved | 143,926 | – | 143,926 | 53.500 | 23/05/09 | 23/05/18 (1) |
| Approved | 37,383 | – | 37,383 | 53.500 | 23/05/09 | 23/05/18 (1) |
| SAYE Scheme | 13,761 | – | 13,761 | 65.400 | 01/04/14 | 01/10/14 |
| Total | 1,714,788 | – | 1,714,788 | | | |
| **T M Phillips** | | | | | | |
| Unapproved | 208,877 | – | 208,877 | 95.750 | 09/08/14 | 09/08/21 |
| Unapproved | 3,133 | – | 3,133 | 0.0250 | 09/08/14 | 09/08/21 |
| SAYE Scheme | – | 11,718 | 11,718 | 76.800 | 01/04/16 | 01/10/16 |
| Total | 212,010 | 11,718 | 223,728 | | | |

All options were granted for nil consideration.

(1) Vesting in three equal annual instalments from date first exercisable.

(2) On 28 September 2012, C P Blackwell exercised 277,776 EMI options at a grant price of 48.125p per share. On the date of exercise, the market value of the Company's shares was 87p. The total cost for the exercise was £133,680 and the total nominal gain was £107,985.

### Directors' LTIP awards

Under the LTIP schemes, the grants made to Directors at 31 March 2013 were as follows:

| Director | Date of award | 1 April 2012 £ | Awarded/ (exercised or cancelled) during year £ | 31 March 2013 £ | Share price on date of grant p | Date of release of shares |
|---|---|---|---|---|---|---|
| **C P Blackwell** | 12/09/05 | 272,741 | (30,000) | 242,741 | 77.50 | 12/09/08 (1) (8) |
| | 22/11/06 | 215,011 | – | 215,011 | 93.00 | 22/11/09 (2) |
| | 25/05/07 | 219,005 | – | 219,005 | 86.25 | 25/05/10 (3) |
| | 23/05/08 | 594,392 | – | 594,392 | 53.50 | 23/05/11 (4) |
| | 21/05/09 | 928,467 | (928,467) | – | 68.50 | 21/05/12 (5) |
| | 08/06/10 | 878,684 | – | 878,684 | 38.00 | 08/06/13 (6) |
| | 08/06/10 | 878,684 | – | 878,684 | 38.00 | 08/06/14 (6) |
| | 18/09/12 | – | 401,889 | 401,889 | 81.50 | 18/09/15 (7) |
| Total | | 3,986,984 | (556,578) | 3,430,406 | | |
| **A P Hyland** | 12/09/05 | 166,290 | – | 166,290 | 77.50 | 12/09/08 (1) |
| | 22/11/06 | 152,299 | – | 152,299 | 93.00 | 22/11/09 (2) |
| | 25/05/07 | 146,003 | – | 146,003 | 86.25 | 25/05/10 (3) |
| | 23/05/08 | 396,261 | – | 396,261 | 53.50 | 23/05/11 (4) |
| | 21/05/09 | 618,978 | (618,978) | – | 68.50 | 21/05/12 (5) |
| | 08/06/10 | 574,632 | – | 574,632 | 38.00 | 08/06/13 (6) |
| | 08/06/10 | 574,632 | – | 574,632 | 38.00 | 08/06/14 (6) |
| | 18/09/12 | – | 267,926 | 267,926 | 81.50 | 18/09/15 (7) |
| Total | | 2,629,095 | (351,052) | 2,278,043 | | |
| **T M Phillips** | 08/06/10 | 242,664 | – | 242,664 | 38.00 | 08/06/13 (6) |
| | 08/06/10 | 242,664 | – | 242,664 | 38.00 | 08/06/14 (6) |
| | 18/09/12 | – | 410,659 | 410,659 | 81.50 | 18/09/15 (7) |
| Total | | 485,328 | 410,659 | 895,987 | | |

The number of shares released to the Directors at the end of the three-year performance period is dependent upon the performance TSR of the Group during that period in comparison to that of a comparator group of companies as described in the LTIP section of this Report on remuneration.

(1) The award made on 12 September 2005 reached the end of its holding period on 12 September 2008. The TSR of the Group during this period compared with that of the comparator group was in the upper quartile. Accordingly, 100% of the shares awarded were released. The nil-cost options relating to this award lapse on 12 September 2015.

(2) The award made on 22 November 2006 reached the end of its holding period on 22 November 2009. The TSR of the Group during this period compared with that of the comparator group equated to 83.32% of the shares awarded being released. The nil-cost options relating to this award lapse on 22 November 2016.

(3) The award made on 25 May 2007 reached the end of its holding period on 25 May 2010. The TSR of the Group during this period compared with that of the comparator group equated to 62.964% of the shares awarded being released. The nil-cost options relating to this award lapse on 25 May 2017.

(4) The award made on 23 May 2008 reached the end of its holding period on 23 May 2011. The TSR of the Group during this period compared with that of the comparator group was in the upper quartile. Accordingly, 100% of the shares awarded were released. The nil-cost options relating to this award lapse on 23 May 2018.

(5) No shares were released from the award made on 21 May 2009 as the average price of the Company's shares over the three-month period before the date of vesting was less than £1.00.

Directors' LTIP awards footnotes (6), (7) and (8) continue on the following page.

[6] The awards granted under the 2005 LTIP scheme on 8 June 2010 are subject to a relative TSR performance measured against the FTSE SmallCap Index. The first 50% of the award is subject to a three-year performance period. In addition, this part of the award will not vest if the average price of the Company's shares for the three-month period before the date of vesting is less than £1.00. The second 50% of the award is subject to a four-year performance period and will not vest if the average price of the Company's shares for the three-month period before the date of vesting is less than £1.27. None of the awards vest if the Company's TSR is below median, 30% vests for median performance with the percentage increasing proportionately so that maximum vesting occurs at upper quartile. In addition, the Committee is required to ensure that the underlying financial performance of the Group is consistent with its TSR performance, by considering the Group's performance against a range of objective financial measures. These measures include revenue and cash generation. If the Committee believes that the underlying corporate financial performance is not consistent with its TSR performance, then no awards will be released.

[7] The awards granted under the 2012 LTIP scheme on 18 September 2012 are subject to relative TSR performance measured against the FTSE SmallCap Index and the Euro Stoxx Pharmaceuticals and Biotechnology Index over three years on equal weighting. None of the awards vest if the Group's TSR is below the median, 25% vests for median performance with the percentage increasing proportionately so that maximum vesting occurs at upper quartile. In addition, the Committee is required to ensure that the underlying financial performance of the Group is consistent with its TSR performance, by considering the Group's performance against a range of objective financial measures, absolute shareholder returns and progress against milestones. If the Committee believes that the underlying corporate financial performance is not consistent with its TSR performance, then awards can be decreased or increased.

[8] On 19 July 2012, C P Blackwell exercised 30,000 LTIP options. On the date of exercise, the market value of the Company's shares was 66.75p. The nominal gain in relation to this exercise was total nominal gain was £20,025.

On behalf of the Board

**Dr S E Foden**
Chair of the Remuneration Committee

20 May 2013





The Directors present their Annual Report on the affairs of the Company and Group, together with the financial statements and Auditor's report for the year ended 31 March 2013.

## Principal activity

The principal activity of the Group undertaken during the year was the ongoing research and development and commercialisation of novel therapeutic products and drug delivery systems for human use.

## Review of business

Key events during the past year are referred to in the Highlights 2012/13, Chairman and Chief Executive's report, the Financial review and the Business review. During the year, the Board has considered the key risks and uncertainties of the business, which are summarised on pages 27-28. The Board has reviewed the risk management policies in place, as summarised in the Corporate governance statement.

## Results and dividends

The Group loss for the year, after taxation, amounted to £5.9m (2011/12: £4.4m). The Directors do not recommend the payment of a dividend (2011/12: £nil).

## Balance sheet strength

The net assets position of the Group continues to be strong, with cash and cash equivalents at the year end of £70.1m (2012: £75.5m).

## Directors

Membership of the Board (together with Directors' biographies) is shown in the section on Board of Directors. Details of Directors' remuneration and their interests in the share capital of the Company are given in the Report on remuneration. None of the Directors has any interest in any contract of significance to the financial statements.

## Employees

Details on the involvement of employees are disclosed in the Corporate social responsibility statement.

## Financial instruments

The policy and practice of the Group with regard to financial instruments is disclosed in note 19 of the financial statements.

## Payment of creditors

The Group's policy is to agree payment terms with the suppliers at the start of business relationships and to abide by them. The typical terms are 30 days (2011/12: 30 days).

## Political and charitable donations

Vectura encourages employee involvement in charitable causes, but does not contribute itself because it is loss-making. There were no political donations during the year (2011/12: £nil).

## Directors' indemnities

The Company has granted an indemnity to its Directors against liability in respect of proceedings brought by third parties, which remains in force as at the date of approving the Directors' report.

## Significant shareholdings

At 15 May 2013, the nearest practical date to the date of this Report, the Company had a total of 3,394 ordinary shareholders and 335,155,767 ordinary shares in issue.

The Directors had been notified of the following substantial holdings in the Company's share capital as at the close of business on 15 May 2013:

| | Number of shares '000 | % |
|---|---|---|
| Legal & General Investment Management Limited | 41,444 | 12.37 |
| Invesco Asset Management Limited | 28,648 | 8.55 |
| Aberforth Partners LLP | 26,791 | 7.99 |
| Franklin Resources, Inc. | 23,170 | 6.91 |
| BlackRock, Inc | 13,661 | 4.08 |
| J P Morgan Asset Management UK Limited | 12,857 | 3.84 |
| Aviva plc | 11,685 | 3.54 |
| AXA SA | 11,802 | 3.52 |

## Share price

The mid-market share price as shown by the London Stock Exchange Daily Official List on 31 March 2013 was 90.75p. The mid-market share price ranged from 57.25p to 96.75p during the year to 31 March 2013. The average share price for the period was 79.92p.

## Corporate social responsibility statement

The Group's policies on the environment, health and safety, ethical and social issues and its employees are described in the statement on pages 37 to 39.

## Going concern

The accounts have been prepared on the going concern basis. Although the current economic conditions may place pressures on customers and suppliers who may face liquidity issues, the Group's product diversity and customer and supplier base substantially mitigate these risks. In addition, the Group operates in the relatively defensive pharmaceutical industry, which we expect to be less affected compared to other industries.

The Group made a loss of £5.9m for the financial year ended 31 March 2013 (2011/12: £4.4m) but had £70.1m of cash and cash equivalents as at 31 March 2013 (2012: £75.5m). The Board operates an investment policy under which the primary objective is to invest in low-risk cash or cash equivalent investments to safeguard the principal. The Group's forecasts, taking into account likely revenue streams, show that the Group has sufficient funds to operate for the foreseeable future.

After reviewing the Group's forecasts and assessing the uncertain nature of some of the Group's forecast revenues, the Directors believe that the Group is adequately placed to manage its business and financing risks successfully despite the current uncertain economic outlook. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

## Annual General Meeting

The Annual General Meeting will be held at the offices of Olswang, 90 High Holborn, London WC1V 6XX on 23 September 2013 at 12.00 noon. Details of the business to be transacted at the forthcoming AGM will be given in a separate circular to shareholders.

## Capital structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 20. The Company has one class of ordinary shares, which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The redeemable preference shares carry no interest, nor do they carry voting rights. The percentage of the issued nominal value of the ordinary shares is 71% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 21. Shares held by the Vectura Group plc Employee Benefit Trust abstain from voting.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and related legislation. The Articles of Association themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Board's Terms of Reference, copies of which are available on request, and the Corporate governance statement on pages 29 to 33.

Under its Articles of Association, the Company has authority to issue 441.2m ordinary shares.

## Auditor

Deloitte LLP has expressed a willingness to continue in office as auditor and a resolution to re-appoint them will be put to the members at the forthcoming Annual General Meeting.

The Directors that were members of the Board at the time of approving the Directors' report are listed on pages 34 and 35. Having made enquiries of fellow Directors and of the Company's auditor, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditor is unaware; and
- each Director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

By order of the Board

**Anne Hyland**
Company Secretary

20 May 2013

# Directors and governance: Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the European Union. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' responsibility statement

**We confirm that to the best of our knowledge:**

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

**Anne Hyland**
Director

20 May 2013



# Directors and governance: Independent auditor's report to the members of Vectura Group plc

We have audited the financial statements of Vectura Group plc for the year ended 31 March 2013, which comprise the Consolidated statement of comprehensive income, the Balance sheet, the Cash flow statement, the Statement of changes in equity and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

**In our opinion:**

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2013 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

### Opinion on other matters prescribed by the Companies Act 2006

**In our opinion:**

- the part of the Report on remuneration to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

**We have nothing to report in respect of the following:**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company's financial statements and the part of the Report on remuneration to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Under the Listing Rules we are required to review:

- the Directors' statement contained within the Directors' report in relation to going concern;
- the part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

**David Hedditch (Senior statutory auditor)**
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Bristol, United Kingdom

20 May 2013



# Financial statements

# Financial statements: Consolidated statement of comprehensive income for the year ended 31 March 2013

| | Note | 2013 £m | 2012 £m |
|---|---|---|---|
| **Revenue** | 2 | 30.5 | 33.0 |
| Cost of sales | | (0.7) | (2.2) |
| **Gross profit** | | 29.8 | 30.8 |
| Research and development expenses | | (30.9) | (32.8) |
| Other administrative expenses | | (3.3) | (3.3) |
| Amortisation | | (6.3) | (7.5) |
| Share-based compensation | | (0.9) | (1.1) |
| Total administrative expenses | | (10.5) | (11.9) |
| **Operating loss** | 5 | (11.6) | (13.9) |
| Investment income | 4 | 0.5 | 0.7 |
| Finance gains | 4 | 0.7 | – |
| **Loss before taxation** | | (10.4) | (13.2) |
| Taxation | 7 | 4.5 | 8.8 |
| **Loss after taxation attributable to equity holders of the Company and total comprehensive income** | | (5.9) | (4.4) |
| Loss per ordinary share: basic and diluted | 8 | (1.8p) | (1.3p) |

All results are derived from continuing activities.



# Financial statements: Balance sheet at 31 March 2013

| | Note | Group 2013 £m | Group 2012 £m | Company 2013 £m | Company 2012 £m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Goodwill | 9 | 49.6 | 49.6 | 2.0 | 2.0 |
| Intangible assets | 10 | 17.1 | 23.4 | – | – |
| Property, plant and equipment | 11 | 9.0 | 6.0 | – | – |
| Investments in subsidiary undertakings | 12 | – | – | 125.6 | 125.6 |
| Other receivables | 13 | 0.4 | 0.4 | – | – |
| Non-current assets | | 76.1 | 79.4 | 127.6 | 127.6 |
| Inventories | 14 | 0.8 | 0.7 | – | – |
| Trade and other receivables | 15 | 9.2 | 9.7 | – | 0.1 |
| Amounts due from subsidiary undertakings | 16 | – | – | 72.9 | 71.2 |
| Cash and cash equivalents | 19 | 70.1 | 75.5 | – | – |
| Current assets | | 80.1 | 85.9 | 72.9 | 71.3 |
| **Total assets** | | 156.2 | 165.3 | 200.5 | 198.9 |
| **Liabilities** | | | | | |
| Trade and other payables | 17 | (19.7) | (20.7) | – | – |
| Deferred income | 18 | (0.1) | (3.5) | – | – |
| Current liabilities | | (19.8) | (24.2) | – | – |
| Deferred income | 18 | (1.3) | (1.3) | – | – |
| Deferred tax liabilities | 7 | – | (0.3) | – | – |
| Non-current liabilities | | (1.3) | (1.6) | – | – |
| **Total liabilities** | | (21.1) | (25.8) | – | – |
| **Net assets** | | 135.1 | 139.5 | 200.5 | 198.9 |
| **Equity** | | | | | |
| Share capital | 20a | 0.1 | 0.1 | 0.1 | 0.1 |
| Share premium | 20b | 2.8 | 2.2 | 2.8 | 2.2 |
| Special reserve | 20c | 8.2 | 8.2 | 8.2 | 8.2 |
| Other reserve | 20d | 124.9 | 124.9 | 123.7 | 123.7 |
| Share-based compensation reserve | 20e | 12.9 | 12.0 | 12.9 | 12.0 |
| Retained (loss)/profit | 20f | (13.8) | (7.9) | 52.8 | 52.7 |
| **Total equity** | | 135.1 | 139.5 | 200.5 | 198.9 |

The financial statements of Vectura Group plc, registered number 03418970, were approved and authorised for issue by the Board of Directors on 20 May 2013 and were signed on its behalf by:

**Dr C P Blackwell**
Director

**A P Hyland**
Director

# Financial statements: Cash flow statement
for the year ended 31 March 2013

| | Group 2013 £m | Group 2012 £m | Company 2013 £m | Company 2012 £m |
|---|---|---|---|---|
| Operating loss | (11.6) | (13.9) | – | – |
| Depreciation and amortisation | 7.3 | 8.6 | – | – |
| Share-based compensation | 0.9 | 1.1 | – | – |
| Increase in inventories | (0.1) | (0.5) | – | – |
| Decrease in receivables | – | 0.9 | – | – |
| (Decrease)/increase in payables | (1.0) | 2.0 | – | – |
| Decrease in deferred income | (3.4) | (0.7) | – | – |
| Exchange movements | 0.7 | – | – | – |
| Net cash outflow from operations | (7.2) | (2.5) | – | – |
| Research and development tax credits received | 4.4 | 4.6 | – | – |
| **Net cash (outflow)/inflow from operating activities** | (2.8) | 2.1 | – | – |
| **Cash flows from investing activities** | | | | |
| Interest received | 0.6 | 0.7 | – | – |
| Purchase of property, plant and equipment | (4.0) | (4.2) | – | – |
| Receipts from sale of property, plant and equipment | 0.2 | – | – | – |
| **Net cash outflow from investing activities** | (3.2) | (3.5) | – | – |
| **Net cash outflow before financing activities** | (6.0) | (1.4) | – | – |
| **Cash flows from financing activities** | | | | |
| Proceeds from issue of ordinary shares | 0.6 | 2.5 | – | – |
| **Net cash inflow from financing activities** | 0.6 | 2.5 | – | – |
| (Decrease)/increase in cash and cash equivalents | (5.4) | 1.1 | – | – |
| Cash and cash equivalents at beginning of period | 75.5 | 74.4 | – | – |
| **Cash and cash equivalents at end of period** | 70.1 | 75.5 | – | – |



# Financial statements: Statement of changes in equity
for the year ended 31 March 2013

| Group | Share capital £m | Share premium £m | Special reserve £m | Other reserve £m | Share-based compensation reserve £m | Retained loss £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| At 1 April 2011 | 0.1 | 78.3 | 8.2 | 124.9 | 10.9 | (82.1) | 140.3 |
| Loss for the year | – | – | – | – | – | (4.4) | (4.4) |
| Conversion of share premium into retained (loss)/profit | – | (78.6) | – | – | – | 78.6 | – |
| Share-based compensation | – | – | – | – | 1.1 | – | 1.1 |
| Exercise of share options | – | 2.5 | – | – | – | – | 2.5 |
| At 31 March 2012 | 0.1 | 2.2 | 8.2 | 124.9 | 12.0 | (7.9) | 139.5 |
| Loss for the year | – | – | – | – | – | (5.9) | (5.9) |
| Share-based compensation | – | – | – | – | 0.9 | – | 0.9 |
| Exercise of share options | – | 0.6 | – | – | – | – | 0.6 |
| **At 31 March 2013** | 0.1 | 2.8 | 8.2 | 124.9 | 12.9 | (13.8) | 135.1 |

| Company | Share capital £m | Share premium £m | Special reserve £m | Other reserve £m | Share-based compensation reserve £m | Retained (loss)/profit £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| At 1 April 2011 | 0.1 | 78.3 | 8.2 | 123.7 | 10.9 | (25.9) | 195.3 |
| Conversion of share premium into retained (loss)/profit | – | (78.6) | – | – | – | 78.6 | – |
| Share-based compensation | – | – | – | – | 1.1 | – | 1.1 |
| Exercise of share options | – | 2.5 | – | – | – | – | 2.5 |
| At 31 March 2012 | 0.1 | 2.2 | 8.2 | 123.7 | 12.0 | 52.7 | 198.9 |
| Profit for the year | – | – | – | – | – | 0.1 | 0.1 |
| Share-based compensation | – | – | – | – | 0.9 | – | 0.9 |
| Exercise of share options | – | 0.6 | – | – | – | – | 0.6 |
| **At 31 March 2013** | 0.1 | 2.8 | 8.2 | 123.7 | 12.9 | 52.8 | 200.5 |

## 1 Accounting policies

### General information

Vectura Group plc is a public limited company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office and principal place of business is given on page 92. The Company's ordinary shares are traded on the London Stock Exchange (LSE) under the ticker VEC.

### Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 and IFRSs and related interpretations as adopted by the European Union and, therefore, the Group financial statements comply with Article 4 of the EU International Accounting Standard (IAS) Regulation. The Group and Company financial statements are also consistent with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

The separate financial statements of the Company are presented as required by the Companies Act 2006 and have been prepared in accordance with IFRSs as adopted by the European Union. The Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and the related notes that form a part of these approved financial statements. The parent Company profit for the year ended 31 March 2013 is £0.1m (2011/12: £nil).

The financial statements have been prepared on the historical cost basis, revised for use of fair values where required by applicable IFRS. The presentational and functional currency of Vectura Group plc is sterling since that is the currency of the primary economic environment in which the Group operates. Therefore, the consolidated financial statements are presented in sterling and all values are rounded to the nearest one hundred thousand (£0.1m), except where otherwise indicated. The principal accounting policies adopted are set out below.

### Going concern

The accounts have been prepared on the going concern basis. Although the current economic conditions may place pressures on customers and suppliers which may face liquidity issues, the Group's product diversity and customer and supplier base substantially mitigate these risks. In addition, the Group operates in the relatively defensive pharmaceutical industry which we expect to be less affected compared to other industries.

The Group made a loss of £5.9m for the financial year ended 31 March 2013 (2011/12: £4.4m) but had £70.1m of cash and cash equivalents as at 31 March 2013 (2012: £75.5m). The Board operates an investment policy under which the primary objective is to invest in low-risk cash or cash equivalent investments to safeguard the principal. The Group's forecasts, taking into account likely revenue streams, show that the Group has sufficient funds to operate for the foreseeable future.

After reviewing the Group's forecasts and assessing the uncertain nature of some of the Group's forecast revenues, the Directors believe that the Group is adequately placed to manage its business and financing risks successfully despite the current uncertain economic outlook. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

### Basis of consolidation

The consolidated annual financial statements comprise the financial statements of Vectura Group plc and its subsidiaries as at 31 March each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control comprises the power to govern the financial and operational policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights, or by way of contractual agreement. The financial statements of subsidiaries are prepared for the same reporting year as the parent Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group had control.

### Critical accounting judgements and key sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions, in accordance with IFRS, that affect the amounts of assets, liabilities, revenues and expenses reported in the financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual amounts and results could differ from those estimates.

The critical accounting judgements and key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the measurement and review for impairment of definite and indefinite-life intangible assets (goodwill), the review for impairment of investments, the measurement of provisions, the estimation of share-based payment costs, revenue recognition and the treatment of research and development expenditure in line with the relevant accounting policy.

The Group determines on an annual basis whether goodwill is impaired and this requires the estimation of the value in use of the cash-generating units to which goodwill is allocated. The measurement of intangible assets other than goodwill on a business combination involves estimation of future cash flows and the selection of a suitable discount rate.

The measurement of provisions involves estimation of future cash flows and the associated level of liabilities expected to arise as a result of these cash flows.

The estimation of share-based payment costs requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgements relating to the probability of meeting non-market conditions and the continuing participation of employees.

The treatment of research and development expenditure requires an assessment of the expenditure in order to determine whether or not it is appropriate to capitalise onto the balance sheet in accordance with IAS 38.

The recognition of milestone revenue income requires an assessment of the Group's future obligations under a given contract, which determines the period over which the revenue is recognised.

### Revenue recognition

Revenue represents the amount receivable for goods and services provided and royalties earned, net of trade discounts, VAT and other sales-related taxes. Revenue is recognised as follows:

#### Technology and product licensing

Technology and product licensing income represents amounts earned for licences provided under licensing agreements, including up-front payments, milestone payments and technology access fees. Revenues are recognised where they are non-refundable, the Group's obligations related to the revenues have been discharged and their collection is reasonably assured. Refundable licensing revenue is treated as deferred until such time that it is no longer refundable. In general, up-front payments are deferred and amortised on a systematic basis in line with the period of development. Milestone payments relating to scientific or technical achievements are recognised as income when the milestone is accomplished.

#### Royalty income

Royalty income is recognised on an accruals basis and represents income earned as a percentage of product sales in accordance with the substance of the relevant agreement net of amounts payable to other licensees.

#### Pharmaceutical Development Services

Pharmaceutical Development Services revenues principally comprise contract product development and contract clinical trial manufacturing fees invoiced to third parties. Revenues are recognised upon the completion of agreed tasks or numbers of person days and in the period to which they relate.

#### Device sales

Device sales are recognised when goods are delivered to customers.

### Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

### Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in the statement of comprehensive income as they are incurred. In accordance with IFRS 3 – Business Combinations, the Group has a twelve-month period in which to finalise the fair values allocated to assets and liabilities determined provisionally on acquisition.

## 1 Accounting policies continued

### Goodwill

Goodwill recognised under UK Generally Accepted Accounting Principles (GAAP) prior to 1 April 2004 is stated at net book value at that date. Goodwill arising on the acquisition of subsidiary or associate undertakings and businesses subsequent to 1 April 2004, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is capitalised. After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### Intangible assets

Intangible assets acquired separately from a business combination are carried initially at cost. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Development expenditure on internally developed intangible assets is taken to the statement of comprehensive income in the year in which it is incurred, except where expenditure relating to clearly defined and identifiable development projects meets the following criteria, in which case development expenditure will be recognised as an intangible asset:

- the project's technical feasibility and commercial viability can be demonstrated;
- the availability of adequate technical and financial resources and an intention to complete the project have been confirmed;
- the correlation between development costs and future revenues has been established; and
- the economic benefit is expected to flow to the entity.

Following initial recognition, the historic cost model is applied, with intangible assets being carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with a finite life have no residual value and are amortised on a straight-line basis over their expected useful lives with charges included in administrative expenses as follows:

Patents, trademarks and licence agreements – between 3 and 10 years

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

### Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and provision for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost of each asset, less its estimated residual value, on a straight-line basis over its expected useful life, as follows:

- Buildings – 20 years
- Laboratory equipment – 3–7 years
- Office and IT equipment – 3 years
- Freehold land is not depreciated.

The carrying values of property, plant and equipment are reviewed for impairment when events or circumstances indicate the carrying values may not be recoverable. Useful life and residual value are reviewed annually.

### Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses on continuing operations are recognised in the statement of comprehensive income in those categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at the re-valued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### Investments in subsidiaries

Investments in subsidiaries are eliminated upon consolidation. In the Company accounts investments are carried at historic cost, less provision for impairment.

### Investments in associates and joint ventures

The Group's interests in its associates, being those entities over which it has significant influence and which are neither subsidiaries nor joint ventures, are accounted for using the equity method of accounting. The Group's interests in its joint ventures are also accounted for using the equity method of accounting. Under the equity method, the investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the entity, less distributions received and less any impairment in value of individual investments. The Group's statement of comprehensive income reflects the Group's share of any income and expense recognised by the associate or joint venture outside profit and loss. The Group does not recognise losses in excess of the value of its investments.

### Financial assets

Financial assets are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or as available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year end. When financial assets are recognised, initially they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

### Inventories

Inventories comprise goods held for resale and are stated at the lower of cost and net realisable value. Costs include the direct costs and, where applicable, an attributable proportion of distribution overheads incurred in bringing inventories to their current location and condition. Cost is determined on a first-in, first-out basis. Net realisable value is based on estimated selling price, less any further costs expected to be incurred to completion and disposal.

### Trade and other receivables

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

## 1 Accounting policies continued

### Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### Leasing

Operating leases and the annual rentals are charged to the statement of comprehensive income on a straight-line basis over the period of the lease in accordance with the terms of the lease agreements.

### Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

### Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively as finance income or finance costs. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability or, where appropriate, a shorter period.

### Financial liabilities

Financial liabilities are initially measured at fair value and, if material, are subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments throughout the expected life of the financial liability.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using cash flows estimated to settle the present obligation, its carrying amount is the value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### Restructuring

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

### Taxation

Current tax assets and liabilities are measured as the amounts expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill, or from an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise, deferred tax is recognised in the statement of comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Research and development tax credits are recognised on an accruals basis.

### Post-retirement benefits

The Group contributes a set proportion of employees' gross salary to defined contribution personal pension plans. The amount charged to the statement of comprehensive income in respect of pension costs is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown either as prepayments or as payables in the balance sheet.

### Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Share-based payments

The Group operates a number of executive and employee share option schemes, including a Long-Term Incentive Plan (LTIP) and a Value Realisation Plan (VRP), under which shares may be granted to staff members. The level of grant to members of staff under the LTIP is dependent upon the total shareholder return of Vectura (a market condition) compared to a peer group of UK pharmaceutical and biotechnology companies. In accordance with IFRS 2, for all grants of share options and awards, the cost of equity-settled transactions is measured by reference to their fair value at the date at which they are granted. The Black–Scholes model is used to determine fair value for options and the Monte Carlo binomial model for LTIP and VRP awards.

The cost of equity-settled share transactions is recognised, together with a corresponding increase in equity, over the period until the award vests. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. At each reporting date, the cumulative expense recognised for equity-based transactions reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the Directors at that date, will ultimately vest. The Group has taken advantage of the exemptions afforded by IFRS 1 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 and not vested at 1 January 2005.

## 1 Accounting policies continued

### New accounting Standards and Interpretations

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements, but with the exception of the amendment to IFRS 1, may impact the accounting for future transactions and arrangements.

- **Amendment to IFRS 1**
  Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
  The amendments replace the fixed dates in the derecognition exception and the exemption related to the initial fair value measurement of financial instruments; and add a deemed cost exemption that an entity can apply at the date of transition IFRSs after being subject to severe hyperinflation.
- **Amendments to IFRS 7**
  Disclosures – Transfers of Financial Assets
  The amendments introduce new disclosure requirements about certain transfers of financial assets.
- **Amendments to IAS 12**
  Deferred Tax: Recovery of Underlying Assets
  The amendment provides an exception to the general measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- **IFRS 1 (amended)** Government Loans
- **IFRS 7 (amended)** Disclosures – Offsetting Financial Assets and Financial Liabilities
- **IFRS 9** Financial Instruments
- **IFRS 10** Consolidated Financial Statements; Investment Entities
- **IFRS 11** Joint Arrangements
- **IFRS 12** Disclosure of Interests in Other Entities; Investment Entities
- **IFRS 13** Fair Value Measurement
- **IAS 1 (amended)** Presentation of Items of Other Comprehensive Income
- **IAS 19 (revised)** Employee Benefits
- **IAS 27 (revised)** Separate Financial Statements; Investment Entities
- **IAS 28 (revised)** Investments in Associates and Joint Ventures
- **IAS 32 (amended)** Offsetting Financial Assets and Financial Liabilities
- **IFRIC 20** Stripping Costs in the Production Phase of a Surface Mine

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows:

- **IFRS 7 (amended)** will increase the disclosure requirements where netting arrangements are in place for financial assets and liabilities;
- **IFRS 9** will impact both the measurement and disclosure of financial instruments;
- **IFRS 12** will impact the disclosure of interests Vectura Group plc has in other entities; and
- **IFRS 13** will impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

## 2 Revenue

Revenue represents amounts invoiced to third parties, derived from the provision of licences and services that fall within the Group's sole principal activity, the development of pharmaceutical products.

| Revenue by category | 2013 £m | 2012 £m |
|---|---|---|
| Royalties | 13.0 | 13.5 |
| Product licensing | 12.8 | 12.1 |
| Technology licensing | 3.7 | 2.3 |
| Pharmaceutical development services | 0.6 | 2.8 |
| Device sales | 0.4 | 2.3 |
| | 30.5 | 33.0 |
| Investment income: | | |
| Interest income (note 4) | 0.5 | 0.7 |
| Total income | 31.0 | 33.7 |

| Revenue by customer location | 2013 £m | 2012 £m |
|---|---|---|
| United Kingdom | 3.9 | 2.5 |
| Rest of Europe | 11.4 | 9.4 |
| United States of America | 15.2 | 21.0 |
| Rest of World | – | 0.1 |
| | 30.5 | 33.0 |

### Information about major customers

Revenue earned from the Group's major customers was as follows: Customer A – £12.7m (2011/12: £13.4m), Customer B – £12.7m (2011/12: £10.6m) and Customer C – £3.5m (2011/12: £2.0m).

## 3 Segmental information

The Group is engaged in a single business activity of pharmaceuticals and the Group does not have multiple operating segments. The Group's pharmaceutical business consists of the research, development and commercialisation of pharmaceutical products. The Leadership Team is the Group's chief operating decision-making body, as defined by IFRS 8, and all significant operating decisions are taken by the Leadership Team. In assessing performance, the Leadership Team reviews financial information on an integrated basis for the Group as a whole, substantially in the form of, and on the same basis as, the Group's IFRS financial statements. Resources are allocated between activities and products on a Group-wide basis on merit.

All revenue and losses before taxation originate in the United Kingdom.

## 4 Investment income and finance gains

| | 2013 £m | 2012 £m |
|---|---|---|
| Investment income: | | |
| Interest receivable on bank deposits and similar income | 0.5 | 0.7 |
| Finance income: | | |
| Foreign exchange gains | 0.7 | – |

## 5 Operating loss

Operating loss is the result for the Group before interest and taxation, and is stated after charging/(crediting):

| | 2013 £m | 2012 £m |
|---|---|---|
| Amortisation of intangible assets | 6.3 | 7.5 |
| Depreciation of property plant and equipment | 1.0 | 1.1 |
| Share-based compensation | 0.9 | 1.1 |
| Cost of inventories recognised as expense | 0.2 | 1.1 |
| Net foreign exchange gains | (0.7) | – |
| Profit on disposal of investments | (0.1) | – |
| Staff costs (note 6) | 12.2 | 12.0 |
| Operating lease rentals: | | |
| – land and buildings | 0.5 | 0.5 |
| – plant and machinery | – | 0.1 |

The analysis of auditor's remuneration is as follows:

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Fees payable to the Company's auditor for the audit of the Company's annual accounts | 20 | 20 |
| Fees payable to the Company's auditor and their associates for other services to the Group: | | |
| – The audit of the Company's subsidiaries | 63 | 63 |
| Total audit fees | 83 | 83 |
| Audit related assurance services | 20 | 15 |
| Taxation compliance services | 4 | 7 |
| Other taxation advisory services | 2 | 16 |
| Other services | 23 | 10 |
| Total non-audit fees | 49 | 48 |
| Total fees | 132 | 131 |



## 6 Directors and employees

### Directors' remuneration

The aggregate remuneration comprised:

| | 2013 £m | 2012 £m |
|---|---|---|
| Fees | 0.2 | 0.2 |
| Salaries and benefits | 0.8 | 0.5 |
| Bonuses | 0.4 | 0.3 |
| | 1.4 | 1.0 |
| Pension contributions | 0.1 | 0.1 |
| | 1.5 | 1.1 |

Three Directors (2011/12: two) receive company contributions to defined contribution personal pension plans. One Director exercised share options in the year, increasing his shareholding in the Company by 252,976 Ordinary shares as a result of the exercise.

The remuneration of the Executive Directors is decided by the Remuneration Committee. Full details of Directors' remuneration and options are contained in the Report on remuneration contained within this Annual Report.

### Employees

The average monthly number of employees (including Executive Directors) employed by the Group during the year was as follows:

| | 2013 No. | 2012 No. |
|---|---|---|
| Research and development | 201 | 194 |
| Business development and administration | 15 | 15 |
| | 216 | 209 |

The aggregate remuneration comprised:

| | 2013 £m | 2012 £m |
|---|---|---|
| Wages and salaries | 10.4 | 10.2 |
| Social security costs | 1.2 | 1.2 |
| Other pension costs | 0.6 | 0.6 |
| | 12.2 | 12.0 |

In addition to the wages and salaries analysis above are the effects of the charge for share-based compensation under IFRS 2 during the year of £0.9m (2011/12: £1.1m).

The Company had no employees during the years ended 31 March 2013 and 31 March 2012.

## 7 Taxation

The major components of the income tax credit for the years ended 31 March 2013 and 31 March 2012 were as follows:

| | 2013 £m | 2012 £m |
|---|---|---|
| Foreign withholding tax charge on royalties | – | (0.1) |
| Research and development tax credits: | | |
| – current year | 3.8 | 4.0 |
| – receipt in respect of prior year | 0.4 | 2.1 |
| Reduction in deferred tax liability | 0.3 | 2.8 |
| Total | 4.5 | 8.8 |

Research and development tax credits are accrued based on the estimated receipt from Her Majesty's Revenue and Customs (HMRC).

The credit for the year can be reconciled to the loss per the statement of comprehensive income as follows:

| | 2013 £m | 2012 £m |
|---|---|---|
| Loss on ordinary activities before tax | (10.4) | (13.2) |
| Loss on ordinary activities multiplied by standard rate of UK of 24% (2011/12: 26%) Corporation Tax | (2.5) | (3.4) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 0.2 | 0.2 |
| Unrecognised tax losses carried forward | 2.3 | 3.2 |
| Reduction in deferred tax liability | (0.3) | (2.8) |
| Foreign withholding taxes | – | 0.1 |
| Research and development tax credits | | |
| – current year | (3.8) | (4.0) |
| – receipt in respect of prior year | (0.4) | (2.1) |
| Total tax credit for the year | (4.5) | (8.8) |

In March 2012 the UK Government announced the main rate of UK corporation tax would reduce from 24% with effect from 1 April 2012 and reduce to 23% with effect from 1 April 2013.

In March 2013 the UK Government announced the main rate of UK corporation tax would reduce to 21% with effect from 1 April 2014 and reduce to 20% with effect from 1 April 2015. These changes have not yet been substantively enacted.

The effect of these tax rate reductions on the deferred tax balance will be accounted for in the period in which the tax rate reductions are substantively enacted.

Factors that may affect future tax charges are:

Cumulative tax losses of approximately £79.7m (2012: £89m), subject to agreement by HMRC, are available within the Group to carry forward against future taxable profits. There is a deferred tax asset of £19.6m (2012: £21.9m), including these tax losses, calculated at the standard rate of tax of 23% (2012: 24%), as follows:

| | 2013 £m | 2012 £m |
|---|---|---|
| On cumulative tax losses – unrecognised | 14.4 | 15.8 |
| On cumulative tax losses – recognised | 4.4 | 5.6 |
| On unclaimed capital allowances – unrecognised | – | 0.3 |
| On unexercised share options – unrecognised | 0.8 | 0.2 |
| | 19.6 | 21.9 |

### Deferred tax asset

A deferred tax asset of £4.4m relating to losses has been recognised as at 31 March 2013 (2012: £5.6m). To the extent permitted by IAS 12 – Income Taxes, this deferred tax asset has been offset against the deferred tax liability arising on the intangible assets. The losses and deferred tax assets have no formal expiry date.

### Deferred tax liability

A deferred tax liability of £4.4m exists at 31 March 2013 (2012: £5.9m). £3.9m of this relates to 23% of the intangible asset value at that date (2012: 24%). The remaining deferred tax liability relates to capital allowances claimed in excess of depreciation. The deferred tax liability of £4.4m is offset by a deferred tax asset as described above.

## 8 Loss per ordinary share

The calculation of loss per share is based on the following losses and number of shares:

| | 2013 | 2012 |
|---|---|---|
| Loss for the year (£m) | (5.9) | (4.4) |
| Weighted average number of ordinary shares (No. m) | 332.9 | 329.3 |
| Loss per ordinary share | (1.8p) | (1.3p) |

The loss per share is based on the weighted average number of shares in issue during the period. IAS 33 – Earnings per Share, requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. No adjustment has been made to the basic loss per share, as the exercise of share options would have the effect of reducing the loss per ordinary share, and is therefore not dilutive.

## 9 Goodwill

| Group | 2013 £m | 2012 £m |
|---|---|---|
| Cost: | | |
| At 1 April | 49.6 | 49.6 |
| At 31 March | 49.6 | 49.6 |
| Net book value: | | |
| At 1 April | 49.6 | 49.6 |
| At 31 March | 49.6 | 49.6 |

Goodwill is allocated to cash-generating units (CGUs), which are tested for impairment on an annual basis, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the cash-generating units are assessed using a value-in-use model. An impairment provision is recognised only if the goodwill carrying value exceeds this value-in-use.

The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates and expected changes to contribution during the period. The model has been based on the most recent pre-tax cash flow forecasts prepared by management, which consist of detailed probability weighted product-by-product analyses. These forecasts are based on development timings and specific projections for sales volumes over a ten-year period, being the period in which the expected useful economic life of each asset has been substantially completed. No terminal values have been included in the cash flow forecasts. No general growth rates are assumed. The discount rates used in the forecasts range from 8% to 13%.

The carrying value of goodwill is made up of balances arising on acquisition of the following companies:

| Group | 2013 £m | 2012 £m |
|---|---|---|
| Co-ordinated Drug Development Limited (since re-named Vectura Limited) | 1.5 | 1.5 |
| Vectura Delivery Devices Limited | 0.5 | 0.5 |
| Innovata Limited | 47.6 | 47.6 |
| | 49.6 | 49.6 |

| Company | £m |
|---|---|
| Carrying amount: | |
| At 31 March 2012 and 31 March 2013 | 2.0 |

For the purposes of goodwill impairment testing, the Group recognises two distinct cash generating units, being the Vectura CGU, which includes Vectura Limited and Vectura Delivery Devices Limited, and the Innovata CGU, being the group of companies acquired in January 2007. These CGUs are part of the Group's only operating segment.

The Group has conducted a sensitivity analysis on the impairment test of each CGU's carrying value. In each case the valuations indicate sufficient headroom such that a reasonably possible change in a key assumption is unlikely to result in an impairment of the related goodwill.

The goodwill in the Company arose on the acquisition of the Centre for Drug Formulation Studies, an unincorporated entity, in 1999. Amortisation of £684,000 was applied prior to 1 April 2004. Goodwill in the Company is tested for impairment using the same discount rates and on the same basis as for the Group.



## 10 Intangible assets

| Group | Patents and trademarks £m | Licences £m | Total £m |
|---|---|---|---|
| Cost: | | | |
| At 1 April 2011, 31 March 2012 and 31 March 2013 | 3.5 | 74.6 | 78.1 |
| Amortisation: | | | |
| At 1 April 2011 | (3.5) | (43.7) | (47.2) |
| Charge for the year | – | (7.5) | (7.5) |
| At 31 March 2012 | (3.5) | (51.2) | (54.7) |
| Charge for the year | – | (6.3) | (6.3) |
| At 31 March 2013 | (3.5) | (57.5) | (61.0) |
| Net book value: | | | |
| At 31 March 2012 | – | 23.4 | 23.4 |
| At 31 March 2013 | – | 17.1 | 17.1 |

Intangible assets are being amortised on a straight-line basis over the expected life of each separate asset. The expected life of these intangible assets is between three and ten years.

The Company had no intangible assets at 31 March 2013 and 31 March 2012.

## 11 Property, plant and equipment

| Group | Assets in the course of construction £m | Freehold land and buildings £m | Laboratory equipment £m | Office and IT equipment £m | Total £m |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At 1 April 2011 | – | – | 10.9 | 0.6 | 11.5 |
| Additions | 2.5 | 0.8 | 0.9 | – | 4.2 |
| Disposals | – | – | (0.3) | (0.1) | (0.4) |
| At 31 March 2012 | 2.5 | 0.8 | 11.5 | 0.5 | 15.3 |
| Additions | 2.3 | 0.1 | 1.6 | – | 4.0 |
| Disposals | – | – | (0.1) | – | (0.1) |
| At 31 March 2013 | 4.8 | 0.9 | 13.0 | 0.5 | 19.2 |
| **Depreciation:** | | | | | |
| At 1 April 2011 | – | – | (8.2) | (0.4) | (8.6) |
| Charge for the year | – | – | (1.0) | (0.1) | (1.1) |
| Disposals | – | – | 0.3 | 0.1 | 0.4 |
| At 31 March 2012 | – | – | (8.9) | (0.4) | (9.3) |
| Charge for the year | – | – | (1.0) | – | (1.0) |
| Disposals | – | – | 0.1 | – | 0.1 |
| At 31 March 2013 | – | – | (9.8) | (0.4) | (10.2) |
| Net book value: | | | | | |
| At 31 March 2012 | 2.5 | 0.8 | 2.6 | 0.1 | 6.0 |
| At 31 March 2013 | 4.8 | 0.9 | 3.2 | 0.1 | 9.0 |

The Company had no property, plant and equipment at 31 March 2013 and 31 March 2012.

## 12 Investments in subsidiary undertakings

| Company | Shares in subsidiary undertakings £m |
|---|---|
| Cost: | |
| At 1 April 2011, 31 March 2012 and 31 March 2013 | 125.7 |
| Amounts written off: | |
| At 1 April 2011, 31 March 2012 and 31 March 2013 | (0.1) |
| Net book value: | |
| At 31 March 2012 | 125.6 |
| At 31 March 2013 | 125.6 |

Details of the Company's significant subsidiary undertakings are as follows:

| Name of undertaking | Country of incorporation | Holding | Proportion held | Nature of business |
|---|---|---|---|---|
| Vectura Group Investments Limited | England | Ordinary | 100% | Pharmaceuticals |
| Vectura Limited [1] | England | Ordinary | 100% | Pharmaceuticals |
| Vectura Delivery Devices Limited [1] | England | Ordinary | 100% | Pharmaceuticals |
| Vectura Inc. | USA | Ordinary | 100% | Pharmaceuticals |
| Innovata Limited [1] | England | Ordinary | 100% | Pharmaceuticals |
| Innovata Biomed Limited [2] | Scotland | Ordinary | 100% | Pharmaceuticals |
| Innovata Hong Kong Limited [3] | Hong Kong | Ordinary | 82% | Pharmaceuticals |

[1] A subsidiary of Vectura Group Investments Limited.
[2] A subsidiary of Innovata Limited.
[3] A subsidiary of Innovata Biomed Limited.

In addition, the Group has a number of subsidiaries that are dormant or whose residual activities are not material to the Group.

## 13 Other receivables

### Group

Other receivables represent an investment bond of £0.4m (2012: £0.4m) in respect of a rental deposit paid under the terms of a lease agreement for the Company's premises at Chippenham. The deposit is for a fixed period of one year and is renewed annually. Under the terms of the lease agreement the deposit must be maintained until the Group has made three years of consecutive profits. The interest rate is 1% below the Royal Bank of Scotland base rate and was 0% for the year ended 31 March 2013. Interest is recognised using the effective interest method.

## 14 Inventories

| | Group 2013 £m | Group 2012 £m | Company 2013 £m | Company 2012 £m |
|---|---|---|---|---|
| Finished goods | 0.8 | 0.7 | – | – |

## 15 Trade and other receivables

| | Group 2013 £m | Group 2012 £m | Company 2013 £m | Company 2012 £m |
|---|---|---|---|---|
| Trade receivables | 0.1 | 0.8 | – | – |
| Other receivables [1] | 4.0 | 4.4 | – | 0.1 |
| Prepayments and accrued income | 4.2 | 3.5 | – | – |
| VAT recoverable | 0.9 | 1.0 | – | – |
| | 9.2 | 9.7 | – | 0.1 |

[1] Includes research and development tax credits of £3.8m (2012: £4.0m).

The average credit period taken by customers is 30 days (2012: 30 days). The Directors consider that the carrying value of trade and other receivables approximates to their fair value.

## 16 Amounts due from and owed to subsidiary undertakings

| | Group 2013 £m | Group 2012 £m | Company 2013 £m | Company 2012 £m |
|---|---|---|---|---|
| Amounts falling due within one year: | | | | |
| Due from subsidiary undertakings | – | – | 72.9 | 71.2 |
| | – | – | 72.9 | 71.2 |

## 17 Trade and other payables

| | Group 2013 £m | Group 2012 £m | Company 2013 £m | Company 2012 £m |
|---|---|---|---|---|
| Amounts falling due within one year: | | | | |
| Trade payables | 3.8 | 2.5 | – | – |
| Other payables | 0.3 | 1.1 | – | – |
| Accruals | 15.6 | 17.1 | – | – |
| | 19.7 | 20.7 | – | – |

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken by the Group for trade purchases is 31 days (2012: 32 days).

## 18 Deferred income

Deferred income relates to amounts received under product licensing agreements. Vectura continues to provide services to these licensing partners over a period of time. Milestone payments under these licensing agreements are therefore spread over future periods, and income is deferred as follows:

| | Group 2013 £m | Group 2012 £m | Company 2013 £m | Company 2012 £m |
|---|---|---|---|---|
| Amounts due within one year | 0.1 | 3.5 | – | – |
| Amounts due in more than one year | 1.3 | 1.3 | – | – |
| | 1.4 | 4.8 | – | – |

## 19 Financial instruments

### Categories of financial instruments

Unless stated otherwise, all disclosures relate to the Group.

Under IFRS 7, and for the purposes of risk management, the following classes of financial assets and their carrying values have been identified:

| | 2013 £m | 2012 £m |
|---|---|---|
| Cash and cash equivalents | 70.1 | 75.5 |
| Loans and receivables | 8.8 | 9.1 |
| | 78.9 | 84.6 |

All financial assets fall due within the first quarter of the year, with the exception of the investment bond which is included within loans and receivables in the table above, the repayment of which is determined by the Group's results (see note 13).

There were no provisions against impaired assets at 31 March 2013 (2012: £nil). There are no amounts past due but not impaired (2012: £nil).

Cash and cash equivalents comprise current accounts held by the Group with immediate access and short-term bank deposits with a maturity value of three months or less.

Under IFRS 7, and for the purposes of risk management, the following classes of financial liabilities and their carrying values (at amortised cost) have been identified:

| | 2013 £m | 2012 £m |
|---|---|---|
| Other | (19.7) | (20.7) |

All financial liabilities fall due within one year.

### Fair value of financial assets and liabilities

The Directors consider there to be no material difference between the book value and the fair value of the Group's financial assets and liabilities at the balance sheet date.

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of Vectura Group plc, comprising issued share capital (note 20a), reserves and retained earnings as disclosed in the statement of changes in equity.

### Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements.

### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

### Financial risk management

The Group's objective in using financial instruments is to maximise the returns on funds held on deposit, to minimise exchange rate risk where appropriate, and to generate additional cash resources through the issue of shares when appropriate. Balance sheets at 31 March 2013 and 31 March 2012 are not necessarily representative of the positions throughout the year, as cash and short-term investments fluctuate considerably depending on when share issues have occurred.

It is, and has been throughout the year, the Group's policy that no speculative trading in financial instruments is undertaken.

The Group is funded principally with equity and invests its funds in short-term bank deposits. The Group has access to the majority of these deposits at a maximum of 24 hours' notice. The Group's policy throughout the period has been to minimise the risk by placing funds in low-risk cash deposits, but also to maximise the return on funds placed on deposit.

Interest on overnight cash deposits is calculated on the basis of a floating rate set at between 5 and 10 basis points below seven-day sterling London Inter-Bank Offer Rate (LIBOR).

### Foreign currency risk management

The Group's principal functional currency is sterling. However, the Group undertakes certain transactions denominated in foreign currencies. The Group's policy is to offset its currency exposure by matching foreign currency revenues with expenditure in the same foreign currency. Where there are no imminent foreign exchange transactions, the balances are exchanged for sterling at spot rate.

All assets and liabilities are denominated in sterling other than those shown below:

| | Group 2013 £m | Group 2012 £m | Company 2013 £m | Company 2012 £m |
|---|---|---|---|---|
| Cash and cash equivalents: | | | | |
| Euro | 2.6 | 1.1 | – | – |
| US dollar | 8.2 | 5.1 | – | – |
| | 10.8 | 6.2 | – | – |

## 19 Financial instruments continued

### Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 10% increase and decrease in sterling against the euro and US dollar; 10% represents management's assessment of a reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where sterling weakens against the relevant currency. For a 10% strengthening of sterling against the euro and the US dollar there would be an equal and opposite impact on the loss and other equity and the balances below would be negative (2012: negative).

| | 2013 £m | 2012 £m |
|---|---|---|
| Euro currency impact – gain | 0.3 | 0.1 |
| US dollar currency impact – gain | 0.8 | 0.5 |

The Company did not hold any balances denominated in foreign currencies at year end and therefore is not exposed to any risk from fluctuations in foreign currencies.

The Group and Company have a legal right of offset between all foreign currency bank accounts and all sterling bank accounts.

### Interest rate risk management

The Group has no external borrowings and is not exposed to interest rate risk through borrowings. Cash and cash equivalents earned £0.5m of finance income during the year (2011/12: £0.7m). If interest rates had been 0.5% higher/lower and all other variables were constant, the Group's profit for the year ended 31 March 2013 would increase/decrease by £0.4m (2011/12: £0.4m).

All the Group's monetary assets and liabilities are held at floating rates.

### Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

### Credit risk management

The Group's credit risk is primarily attributed to its cash and cash equivalents. The Board operates an investment policy, under which the primary objective is to invest in a diverse portfolio of low risk cash or cash equivalent investments to safeguard the principal.

The Group's credit risk on trade and other receivables is low as the amounts are owed by large, multinational, pharmaceutical companies. For the same reason, the Directors assess the quality of these assets as high.

### Market risk management

The Group's exposure to market risk primarily comprises interest rate exposure. Group funds are invested in cash deposits with the objective of maintaining a balance between accessibility of funds and competitive rates of return.



## 20 Equity

### (a) Share capital

| | 2013 £m | 2013 No. '000 | 2012 £m | 2012 No. '000 |
|---|---|---|---|---|
| Authorised: | | | | |
| Ordinary shares of 0.025p each | 0.1 | 441,200 | 0.1 | 441,200 |
| Redeemable preference shares of £1 each | – | 34 | – | 34 |
| Allotted, called up and fully paid: | | | | |
| Ordinary shares of 0.025p each: | | | | |
| At 1 April | 0.1 | 331,686 | 0.1 | 326,659 |
| Issued to Share Investment Plan | – | 1,000 | – | – |
| Issued on exercise of share options | – | 1,062 | – | 3,475 |
| Issued on exercise of Sharesave options | – | 226 | – | 1,466 |
| Issued on exercise of LTIP options | – | 482 | – | 86 |
| At 31 March | 0.1 | 334,456 | 0.1 | 331,686 |
| Redeemable preference shares of £1 each: | | | | |
| At 1 April and 31 March | – | 34 | – | 34 |

The rights attaching to the redeemable preference shares are summarised as follows: (a) the shares do not confer any right to dividend or other distributions; (b) on a return of capital on liquidation or otherwise, the assets of the Company available for distribution among the members are to be applied first in repaying to the holders of the redeemable preference shares the amounts paid up or credited as paid up in respect of such shares; (c) holders of redeemable preference shares have the right to receive notice of and attend general meetings, but have no right to vote thereat; (d) the price per share at which redeemable preference shares are transferred may not exceed the amount paid or credited as being paid up; and (e) the Company may specify by notice in writing the date upon which it intends to redeem all (but not some only) of the shares. The price per share payable by the Company to the holders of the redeemable preference shares on their redemption shall be the amount paid up or credited as paid up on each such share.

Between 1 April 2012 and 31 March 2013 the Company issued 1,000,000 ordinary shares to the Vectura Group plc Employee Benefit Trust (in the year ended 31 March 2012: none).

Between 1 April 2012 and 31 March 2013 the Company issued 1,061,980 (in the year ended 31 March 2012: 3,475,463) ordinary shares of 0.025p each on the exercise of employee share options at a weighted average exercise price of 48.52p per share (2012: 57.04p).

Between 1 April 2012 and 31 March 2013 the Company issued 225,634 (in the year ended 31 March 2012: 1,465,608) ordinary shares of 0.025p each on the exercise of Sharesave options at a weighted average exercise price of 48.18p (2012: 36.14p) per share.

Between 1 April 2012 and 31 March 2013 the Company issued 482,121 (in the year ended 31 March 2012: 86,209) ordinary shares of 0.025p each on the exercise of LTIP nil-cost options.

## 20 Equity continued

### (b) Share premium

The share premium account consists of the proceeds from the issue of shares in excess of their par value (which is included in the share capital account) less amounts transferred to distributable reserves through capital conversion.

### (c) Special reserve

The special reserve was created on 19 May 2004 as part of the process prior to the Company's Initial Public Offering on 2 July 2004, to enable re-registration as a public company. It is a non-distributable reserve.

### (d) Other reserve

The other reserve was created on the acquisition by the Company of Co-ordinated Drug Development Limited (since renamed Vectura Limited) in August 1999, of Vectura Delivery Devices Limited in February 2002 and of Innovata plc in January 2007. It is a non-distributable reserve.

### (e) Share-based compensation reserve

The share-based compensation reserve represents the credit arising on the charge for share options calculated in accordance with IFRS 2.

### (f) Retained (loss)/profit

A shareholder resolution was approved at the Company's AGM, held on 22 July 2011, to reduce the Company's share premium account by £78.6m, being the value of the share premium account as at 14 June 2011. A subsequent application to reduce the Company's share premium account was approved by the High Court of Justice on 25 January 2012. As part of this share premium reduction, the retained loss value of £25.9m in the Company balance sheet as at 14 June 2011 was cancelled and this created a retained profit in the Company balance sheet.

## 21 Equity-settled share option schemes and Long-Term Incentive Plan

The Company's Directors, officers and employees hold options under the Vectura Unapproved Share Option Plan ("Unapproved Plan"), under Enterprise Management Incentive arrangements ("EMI Plan") and under the Vectura Approved Share Option Plan ("Approved Plan"). Options are granted to acquire shares at the opening market price ruling on the date of grant. In general, options vest after three years and are exercisable during a period ending ten years after the date of grant.

On 18 January 2007, upon the acquisition of Innovata plc and in accordance with a scheme of arrangement, options over Innovata shares issued and outstanding at that date under the ML Laboratories plc 1989 Executive Option Scheme and the ML Laboratories plc 1999 Executive Option Scheme were exchanged for options over Vectura shares in accordance with the rules of the relevant Innovata Option Scheme. The exchange was on the basis that the option holders received new options representing 0.2858 Vectura shares for every one Innovata share.

The Company operates a Sharesave Scheme. All employees and Executive Directors are invited to subscribe for options to acquire shares in the Company, which may be granted at a discount of up to 20% of the market value on the offer date. The options granted vest after three years and are exercisable during a period of six months following the vesting date.

The Company also operates a Long-Term Incentive Plan (LTIP) under which Executive Directors and certain senior managers are granted conditional rights in the form of nil-cost options to receive a maximum number of shares at the beginning of a three-year period, a proportion of which they will be entitled to receive at the end of that period, depending on the extent to which the challenging performance conditions set by the Remuneration Committee at the time the allocation was made are satisfied. The nil-cost option entitlement is exercisable from the beginning of the fourth year to the end of the tenth year following the date of grant. Further information on the performance conditions of the LTIP are detailed in the Report on remuneration. At 31 March 2013, Executive Directors and eligible senior managers hold rights to ordinary shares awarded under the LTIP, as follows:

| Date of vesting | Ordinary shares vesting |
|---|---|
| 12 September 2008 | 554,615 |
| 22 November 2009 | 501,242 |
| 2 March 2010 | 104,758 |
| 25 May 2010 | 446,636 |
| 23 May 2011 | 1,388,100 |
| 21 May 2012 | 271,575 |
| 7 June 2013 [1] | 2,511,192 |
| 7 June 2014 [1] | 2,511,192 |
| 18 September 2015 [1] | 1,710,423 |

[1] Maximum number of shares, subject to performance conditions.

On 31 October 2008, the shareholders approved a Value Realisation Plan (VRP). The VRP runs in parallel to the LTIP and provides participants with a share of a pre-determined percentage of the total consideration paid for the Company in the event of a change in control within five years of the date of approval of the Plan. In this event, under the VRP members of the Executive Committee of the Company will be granted a one-off entitlement in the form of units, which convert into ordinary shares in the Company, the actual number of shares that convert being linked to the offer price per share achieved. The VRP is triggered upon achievement of a minimum bid price of £1.27 per share, with a maximum number of shares available to participants if the bid price reaches £1.77 per share, or greater.

### Fair value calculations

The Group has taken advantage of the exemption in IFRS 1 and has applied IFRS 2 only to options granted after 7 November 2002 and not vested at 1 January 2005. At 31 March 2013 there were 318,324 options outstanding that were granted before this date (2012: 2,255,995).

With the exception of the LTIP awards and the potential awards under the VRP, the fair value of the options was determined using the Black-Scholes pricing model. The fair value of the LTIP and VRP awards have been estimated using the Monte Carlo model, using the same basis for the assumptions for volatility, option life, expected dividend yield and risk-free rate of return as used for the Black-Scholes model. For the purposes of calculating the fair value of the LTIP, it was considered equally probable that the Company's performance would be such that it would perform in each of the quartiles established under the LTIP scheme, as described in the Report on remuneration.

## 21 Equity-settled share option schemes and Long-Term Incentive Plan continued

| Year of grant | 2013 | 2012 |
|---|---|---|
| The assumptions input into the Black-Scholes model were as follows: | | |
| Weighted average share price of grants during the year | 72.03p | 69.22p |
| Weighted average exercise price of grants during the year | 80.41p | 60.61p |
| Expected volatility [1] | 45%–49% | 46%–49% |
| Expected life [2] | 3–5 years | 3–5 years |
| Expected dividends | Nil | Nil |
| Risk-free interest rate [3] | 0.3%–0.5% | 0.5%–1.0% |
| The assumptions input into the Monte Carlo model were as follows: | | |
| Weighted average share price of grants during the year | 81.50p | – |
| Weighted average exercise price of grants during the year | 0.025p | – |
| Expected volatility [1] | 49% | – |
| Expected life [2] | 3 years | – |
| Expected dividends | Nil | – |
| Risk-free interest rate [3] | 0.4% | – |

[1] Expected volatility has been calculated by reference to the Company's historic share price since the IPO in July 2004, considered alongside the volatility of similar companies. The expectation of the cancellation of options has been considered in determining the fair value expense charged in the statement of comprehensive income.

[2] The expected life used in the models is based on management's best estimate of behavioural consideration based on historic exercise patterns.

[3] The risk-free interest rate is the UK Gilt Rate at the date of grant, commensurate with the expected term.

The charge is spread over the expected vesting period, utilising the fair value calculated by using the two models described above, and after adjusting for the likelihood of cancellation of options when employees leave.

The share-based compensation charge for the year ended 31 March 2013, including the LTIP, was £918,000 (2012: £1,040,000).

The aggregate of the estimated fair value of options granted under share option schemes and Share Incentive Plan during the year ended 31 March 2013 was £336,000 (2012: £426,000) and under the SAYE Scheme £53,000 (2012: £232,000). The estimated fair value of LTIP awards during the year ended 31 March 2013 was £790,000 (there were no awards under the LTIP during the year ended 31 March 2012).

| Options outstanding | Share Option Schemes Number of options | WAEP* | SAYE Scheme Number of options | WAEP* | LTIP Number of options | WAEP* |
|---|---|---|---|---|---|---|
| At 1 April 2011 | 18,254,400 | 62.37 | 2,366,593 | 44.83 | 11,820,841 | 0.025 |
| Options granted | 414,375 | 95.75 | 1,101,966 | 47.40 | – | – |
| Options exercised | (3,474,463) | 57.04 | (1,465,608) | 36.14 | (86,209) | 0.025 |
| Options cancelled | (1,458,839) | 100.48 | (346,433) | 62.75 | (829,122) | 0.025 |
| At 31 March 2012 | 13,735,473 | 79.91 | 1,656,518 | 50.43 | 10,905,510 | 0.025 |
| Options granted | 153,833 | 66.75 | 170,367 | 76.80 | 1,710,423 | – |
| Options exercised | (1,061,980) | 48.52 | (225,634) | 51.32 | (482,121) | 0.025 |
| Options cancelled | (137,887) | 80.81 | (41,583) | 58.32 | (2,134,079) | 0.025 |
| At 31 March 2013 | 12,689,439 | 60.64 | 1,559,668 | 53.50 | 9,999,733 | 0.025 |
| Range of exercise prices | | 0.025p–104p | | 47.4p–76.8p | | 0.025p |
| Weighted average remaining contractual life (years) | | 2.43 (2012: 3.42) | | 2.30 (2012: 2.82) | | 6.37 (2012: 7.02) |
| **Options vested** | | | | | | |
| At 31 March 2012 | 12,950,364 | 59.87 | – | – | 3,477,472 | 0.025 |
| At 31 March 2013 | 11,915,629 | 60.64 | – | – | 3,266,926 | 0.025 |
| Weighted average remaining contractual life (years) | | 2.08 (2012: 3.11) | – | – | | 3.81 (2012: 5.24) |

* Weighted average exercise price (p)

## 22 Analysis of net funds

| Group | 1 April 2012 £m | Cash flow £m | 31 March 2013 £m |
|---|---|---|---|
| Cash and cash equivalents | 75.5 | (5.4) | 70.1 |

The Company had no net funds at 31 March 2013 and 31 March 2012.

## 23 Retirement benefits plans

The Group operates a number of defined contribution personal pension plans for all qualifying employees. The assets of the schemes are held separately from those of the Group and are independently administered. The total cost charged in the statement of comprehensive income is detailed in note 6.

## 24 Operating lease arrangements

At the balance sheet date, the Group has aggregate outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| Group | Land and buildings 2013 £m | Land and buildings 2012 £m | Other 2013 £m | Other 2012 £m |
|---|---|---|---|---|
| Expiry date: | | | | |
| Within one year | 0.5 | 0.5 | – | – |
| In the second to fifth years inclusive | 1.1 | 1.5 | – | – |
| After five years | – | 0.1 | – | – |
| | 1.6 | 2.1 | – | – |

On 26 July 2002, the Group entered into a 25-year lease agreement in respect of the lease of premises at One Prospect West, Chippenham, Wiltshire. The Group has the right to break the lease in July 2017.

On 29 September 2011, the Group entered into an agreement in respect of the lease of premises at Five Prospect West, Chippenham, Wiltshire. The Group has the right to break the lease in September 2015.

On 13 June 2005, the Group entered into an agreement in respect of premises at Cambridge Science Park, Milton Road, Cambridge and on 27 October 2006, the Group entered into a lease agreement on an adjacent property at Cambridge Science Park; both these leases expire on 24 December 2014.

The Company had no other operating lease arrangements at 31 March 2013 and 31 March 2012.

## 25 Capital and other commitments

At 31 March 2013 the Group had capital commitments contracted, but not provided for, of £1.7m (2012: £4.1m).

The Company had no capital and other commitments at 31 March 2013 and 31 March 2012.

## 26 Related party transactions

### Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. Except as disclosed below, no Group company entered into a transaction with a related party that is not a member of the Group.

### Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below:

| | 2013 £m | 2012 £m |
|---|---|---|
| Short-term employee benefits | 1.5 | 1.2 |
| Post-employment benefits | 0.1 | 0.1 |
| Share-based payments | 0.3 | 0.4 |
| | 1.9 | 1.7 |

### Company

Details of the Company related party transactions with parties outside of the Group are noted above. In addition, the following details of trading within the Group are disclosed in accordance with IAS 24.

| Related party | Recharge from related parties £m | Recharge to related parties £m | Amounts owed by related parties £m | Amounts owed to related parties £m |
|---|---|---|---|---|
| Subsidiaries: | | | | |
| 2012 | – | 1.1 | 71.2 | – |
| 2013 | – | 0.9 | 72.9 | – |

Amounts outstanding are unsecured. No provisions have been made for doubtful debts owed by related parties.

## 27 Post balance sheet event

Vectura announced on 13 May 2013 that it had established Tianjin Kinnovata Pharmaceutical Company Limited ("Kinnovata") in China with two partners: Tianjin KingYork Group Company Limited ("KingYork") and Zendex Bio Strategy Inc. ("Zendex").

Completion of the Kinnovata transaction is subject to final Government clearances in China, which are expected mid-to-late 2013. Vectura expects to record an exceptional non-cash gain of approximately £13.5m in relation to the acquisition of the 35% shareholding in Kinnovata. This gain will be recognised in the 2013/14 financial year. Kinnovata will be accounted for as an associate, with Vectura recording 35% of the profits or losses of Kinnovata on its statement of comprehensive income as a non-cash item. Kinnovata is expected to be loss-making for at least 24 months following establishment.

# Financial statements: Five-year summary year ended 31 March

| Unaudited<br>Year ended 31 March | 2009<br>£m | 2010<br>£m | 2011<br>£m | 2012<br>£m | 2013<br>£m |
|---|---|---|---|---|---|
| **Consolidated statement of comprehensive income** | | | | | |
| Revenue | 31.2 | 40.1 | 42.9 | 33.0 | 30.5 |
| Gross profit | 27.3 | 36.6 | 40.2 | 30.8 | 29.8 |
| Gross profit margin | 88% | 91% | 94% | 93% | 98% |
| Research and development expenses | (30.7) | (34.8) | (36.4) | (31.7) | (29.9) |
| Other administrative expenses | (3.2) | (3.4) | (3.3) | (3.3) | (3.3) |
| EBITDA | (6.6) | (1.6) | 0.5 | (4.2) | (3.4) |
| Depreciation | (1.6) | (1.6) | (1.3) | (1.1) | (1.0) |
| Amortisation | (10.2) | (10.6) | (10.7) | (7.5) | (6.3) |
| Share-based compensation | (1.9) | (1.5) | (1.8) | (1.1) | (0.9) |
| Share of loss of associate | (0.6) | – | – | – | – |
| Operating loss | (20.9) | (15.3) | (13.3) | (13.9) | (11.6) |
| Investment income | 3.6 | 0.6 | 0.8 | 0.7 | 0.5 |
| Finance (costs)/income | (2.3) | 0.9 | (0.8) | – | 0.7 |
| Pre-tax loss | (19.6) | (13.8) | (13.3) | (13.2) | (10.4) |
| Taxation | 2.9 | 3.6 | 4.5 | 8.8 | 4.5 |
| Loss after taxation | (16.7) | (10.2) | (8.8) | (4.4) | (5.9) |
| Loss per ordinary share | (5.2p) | (3.2p) | (2.7p) | (1.3p) | (1.8p) |
| **Cash flow statement** | | | | | |
| Net cash (outflow)/inflow from operations | (3.6) | (4.3) | 2.7 | (2.5) | (7.2) |
| Net taxes received | 2.9 | 0.5 | 8.1 | 4.6 | 4.4 |
| Interest received | 3.6 | 0.6 | 0.7 | 0.7 | 0.6 |
| Net capital expenditure | (1.6) | (1.0) | (1.4) | (4.2) | (3.8) |
| Net cash inflow/(outflow) before financing | 1.3 | (4.2) | 10.1 | (1.4) | (6.0) |
| **Balance sheet** | | | | | |
| Cash and cash equivalents | 74.0 | 64.1 | 74.4 | 75.5 | 70.1 |
| Shareholders' equity | 154.9 | 147.1 | 140.3 | 139.5 | 135.1 |
| Net current assets | 56.0 | 56.2 | 59.6 | 61.7 | 60.3 |



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(Chief Financial Officer)

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(Chief Operations Officer
& President of US Operations)

**Dr John R Brown**
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