DEVELOPING FUTURE PRODUCTS
FOR AIRWAYS DISEASES

Vectura Group plc Annual Report and Accounts 2014/15

A transformational year

- **REVENUE CONTINUES TO GROW** GROWING ROYALTY STREAMS
- **MAIDEN PROFIT** AFTER TAX
- **PORTFOLIO REVIEW COMPLETED** AND ALIGNED TO STRATEGY
- **CONTINUED PROGRESS** ON PARTNERED AND UNPARTNERED PROJECTS
- **ACTIVAERO INTEGRATION** COMPLETED
- **INCREASED BUSINESS DEVELOPMENT** OPPORTUNITIES

Vectura is making excellent progress in executing its business model on its journey towards becoming a specialty pharmaceutical company

OUR YEAR

Focus on exploiting valuable niches in our therapeutic space

Established "partner of choice" in airways diseases product development

Prioritisation of R&D expenditure

Increase in business development opportunities following the acquisition of Activaero

Partnered product launches drive royalty revenue growth

Read more on **pages 02 and 03**

Strategic report

Governance

Financial statements

FINANCIAL HIGHLIGHTS

Maiden profit after tax

£3.7m

14/15 £3.7m
(£2.3m) 13/14

Revenue growth

£58m
+59%

14/15 £58m
13/14 £36.5m

For more information visit:
www.vectura.com

EBITDA[1] progression

£16.2m
+212%

14/15 £16.2m
13/14 £5.2m

Basic EPS

0.9p

14/15 0.9p
(0.7p) 13/14

1 Earnings before investment income, finance (costs)/gains, tax, depreciation, amortisation, share-based compensation and adjusted for non-recurring expenditure items.

Marketed products (see further detail on pages 26 to 29)

Partnered

- Ultibro® Breezhaler® (indacaterol/glycopyrronium bromide, QVA149) achieved total net sales of $156m within our financial year (as reported by Novartis) generating increased royalty income for Vectura
  - The product has been launched in 21 countries (including Germany, Japan and Canada)
  - The product has been approved for use in over 60 countries including countries within the EU, Japan, Latin America, Canada, Switzerland and Australia
- QVA149 US FDA filing acceptance triggered a milestone payment to Vectura of $12.5m
  - Novartis expects US Food and Drug Administration ("FDA") action by Q4 2015
  - Launch of QVA149 in the US is anticipated to generate additional royalty income for Vectura
- Seebri® Breezhaler® (glycopyrronium bromide, NVA237) achieved total net sales of $153m within our financial year (as reported by Novartis) generating increased royalty income for Vectura
  - The product is approved for use in over 80 countries including countries within the EU, Japan, Latin America, Canada, Switzerland and Australia
- NVA237 US FDA filing acceptance triggered a milestone payment to Vectura of $7.5m
  - Novartis expects US FDA action by Q4 2015
  - Launch of NVA237 in the US is anticipated to generate additional royalty income for Vectura
- AirFluSal® Forspiro® (salmeterol/fluticasone) has been launched in 12 European countries, and also in South Korea and Mexico. It has been approved in approximately 30 countries
  - Receipt of the Czech Republic and Portuguese marketing authorisation by Sandoz triggered milestone payments to Vectura of €1.5m each

Licence agreement

- US launch of Anoro® Ellipta® (umeclidinium/vilanterol) by GSK triggered a £2m milestone to Vectura

Other

Corporate Development

- Entered into a global development and licence agreement with Janssen Biotech, Inc. for the exclusive development of novel anti-inflammatory therapies for the treatment of asthma/COPD
- Enlarged technology platform now attracting significant deal interest

Post-period Event

- FDA approval of RAPLIXA™ triggered a milestone payment of approximately $3.5m from Vectura's licensee, The Medicines Company

Strong partnerships and business model validation

Vectura has established development collaborations, joint ventures and licence agreements with several pharmaceutical and biotechnology companies. Recent Company progress has also attracted considerable increased interest in future business development opportunities.

NOVARTIS ucb Baxter janssen 金耀集团 KingYork

Ablynx GRIFOLS gsk SANDOZ

Read more on our business model on **pages 14 and 15**

Pipeline (see further detail on pages 30 to 33)

VR315

- Vectura received two additional milestones, each of $1.5m, as a result of further progress with VR315 in the US

VR506

- Licence agreement signed in the US with Vectura's established US partner for VR315
  - Important step in the development of VR506 for the US market
  - Extends the successful collaboration with our US partner

VR475 EU (FAVOLIR®)

- A clinical study design has been agreed with the CHMP and clinical trial activities will start imminently, with filing anticipated in mid-2018
- Refocused to target the broader patient population shift from GINA step 5 OCS-dependent patients to GINA step 4 and 5 patients
- Phase IIb/III trial results published

VR475 US (FAVOLIR®)

- Following the revised development strategy for FAVOLIR® in the EU, a similar approach will be sought for the US once the European Phase III study completes. At that time the Company will seek endorsement of this approach with the FDA
  - Creates an affordable development programme that builds off the positive clinical momentum created in the EU from the conduct of the current study
  - Targets an increased market opportunity
- Approach is aligned with our strategic desire to optimise return on R&D investment over the near term

VR647 (SCIPE)

- Pre-IND meeting scheduled in June 2015 to agree the US regulatory strategy
- Objective is to retain current label/indication of budesonide, with a claim for reduced dosing time
- Continuing to evaluate incoming licensing requests to expedite value creation

VR611 (TRPV1 receptor modulator)

- Further development has been stopped

Other

Assets acquired following the purchase of Activaero GmbH are now integrated into development plans

- Important assets for ongoing partnered programmes
- Post period: the Gemünden site will be closed by March 2016 and activities will be transferred to other sites

Final Chinese government approval of Kinnovata anticipated in FY 2015/16, upon which an exceptional non-cash gain will be recognised

- Currently in process of transferring all critical intellectual property and trade marks pertaining to the licensed technology to the new joint venture
- Building work has commenced on the new, purpose-built, manufacturing facility for the products that are currently in development

Clear strategic focus

Vectura's portfolio has emerged from the Company's product development, formulation and drug delivery expertise and is currently centred around developing inhaled products to address unmet needs in airways diseases.

We continue to focus on balancing the unmet needs of all stakeholders (patients, physicians, payors) with commercial attractiveness and exploiting valuable niches in our therapeutic space.

Read more on our strategy on **pages 16 and 17**

ADDRESSING THE UNMET NEEDS OF PATIENTS WITH AIRWAYS DISEASES

Operational activities to support the journey

Vectura develops products in-house and in collaboration with partners

PRODUCT DEVELOPMENT

(Partnered and wholly owned)

Supported by Clinical and Regulatory teams, Quality and IP

and supports

DEVICE MANUFACTURING AND COMMERCIALISATION

(Dry Powder Inhalers ("DPIs") and Smart Nebulisers)

Underpinning our product development focus through stages of pre-clinical and clinical development and ensure successful commercialisation in partner's or contract manufacturing facilities

Vectura has deep expertise in

FORMULATION

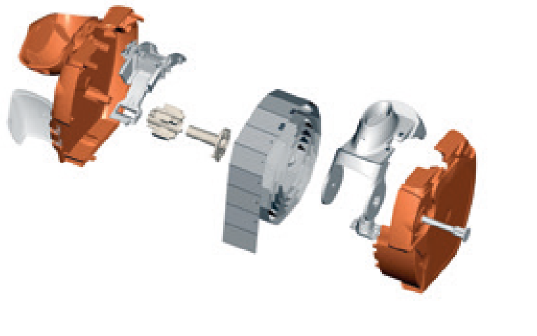
Pharmaceutical development services (fee-for-service activities for partners)

as well as

DEVICE DESIGN AND DEVELOPMENT

(Dry Powder Inhalers ("DPIs") and Smart Nebulisers)

Making Vectura the partner of choice in airways diseases with a range of DPIs and smart nebuliser devices for inhaled delivery of drugs to the lungs



Marketed and pipeline assets

Our portfolio comprises partnered marketed products as well as branded and generic investigational drugs. Each category has specific benefits in terms of revenue and IP accretion. Our hybrid business model (whilst we transition into a specialty pharmaceutical company) allows us to pursue various routes to market including partnership, co-development and self-commercialisation.

Partnered:

Marketed

Asthma, COPD, non-respiratory*

Pipeline

Asthma, COPD, pulmonary hypertension, cystic fibrosis, influenza, respiratory syncytial virus

* Haemophilia, dialysis and surgical adhesions.

Wholly owned:

Pipeline

Asthma, severe inflammatory diseases

Read more on our products and pipeline on **pages 26 to 33**

Proprietary technologies

An unparalleled breadth of delivery technologies underpins our product development focus

Pre-metered foil blister DPIs

Focus for asthma/COPD programmes: GyroHaler®, Lever-operated, Open-Inhale-Close

Reservoir DPIs

Established technology used in Chinese JV: Duohaler®, Clickhaler®

Inhalation formulation technologies

Expertise in small and large molecules/ biologics developments

Smart nebuliser-based inhalation

Systems for specialty applications: AKITA JET®, AKITA®2 APIXNEB®, FOX™ (hand held)

Read more on our technologies and devices on **pages 34 and 35**

GyroHaler®

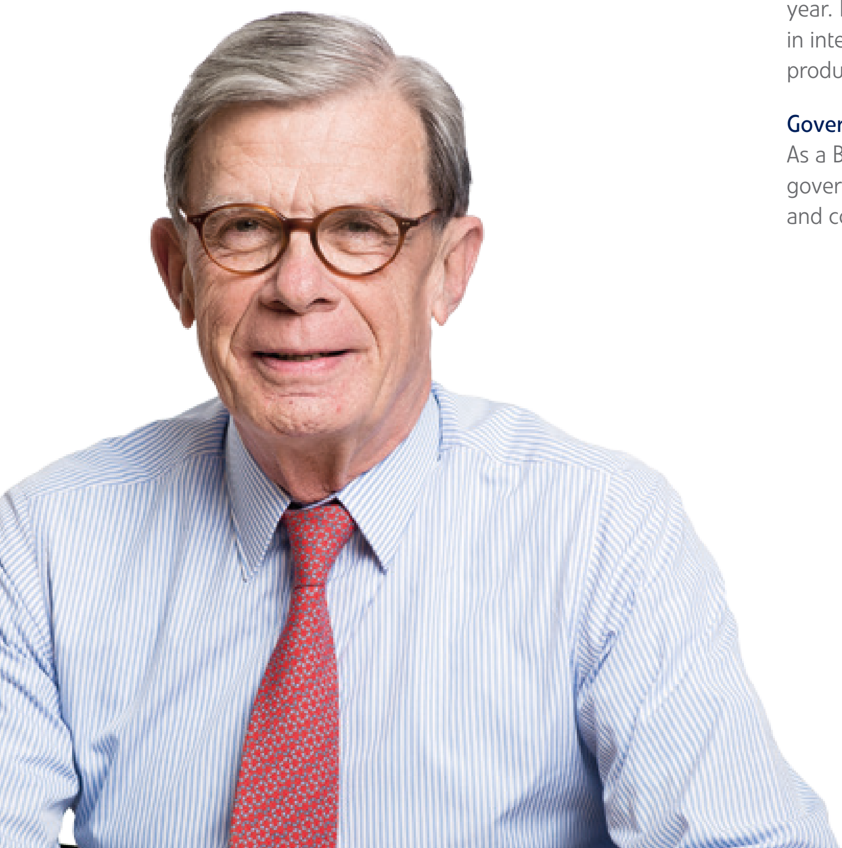
FOX™

THIS HAS BEEN A BREAKTHROUGH YEAR FOR VECTURA GROUP

Summary

- Delivering our maiden profit
- Established platform to continue to deliver growth and value to shareholders

"Our strategy will create significant value for all stakeholders through developing and commercialising products with high unmet need.



Dear shareholder

I am delighted to introduce Vectura's Annual Report for the financial year 2014/15. The Group has continued to build on the foundations put in place and has performed well against financial and non-financial KPIs. Importantly, this financial year has seen Vectura generate its maiden profit after tax as we move to a new phase for the Group based on sustainable growth and we are poised to generate significant cash flow per share.

Our business

During the year we completed a review of our portfolio, which has been prioritised and aligned to the strategy and which we believe will deliver maximum value capture in the period to 2021. Vectura's journey to becoming a specialty pharmaceutical company was launched from a base of income generated from partnered products with a growing range of royalties contributing to an increased quality revenue mix; we have described this as our hybrid business model. This model builds on the partnering model we have pursued historically and foresees Vectura pursuing higher returns on investment, where possible, through co-development deals and self-commercialisation of focused, specialty pharmaceutical assets. The strategy aims to balance investment in growth opportunities with the delivery of higher returns.

We have made significant progress during the year, completing the integration of Activaero GmbH which we acquired in March of last year. Following the acquisition, we have seen a significant increase in interest from third parties in our broader offering of pipeline products and inhalation technologies.

Governance

As a Board, we are committed to the principles of good corporate governance. Through our robust internal framework of systems and controls, we strive to maintain the highest standards.

Read more about our strategy on **pages 16 and 17**

Read more about our CSR on **pages 36 to 39**

Read more about our governance on **pages 43 to 52**

Board

There were two important changes to the Executive Board during the year. In January, Andrew Oakley was appointed Chief Financial Officer and Company Secretary, replacing Paul Oliver. Andrew brings a wealth of experience to the Group. I would like to thank Paul for his eight years' service with Vectura and I wish him well for the future. In February, after over twelve years of dedicated service to Vectura, Dr Chris Blackwell, Chief Executive, announced his intention to step down from this position. Chris will leave the Company at the end of June 2015.

On behalf of my Board colleagues, I would like to take this opportunity to thank Chris for the dedication he has given to the Group and for the value he has created for our shareholders, over many years. Chris leaves the Group in a very strong position, with an experienced senior management team in place. The Company has engaged an external search firm to assist it to evaluate both internal and external candidates and the comprehensive search is making good progress. The Company hopes to be in a position to bring this to a successful conclusion in the near future. In order to ensure continuity of leadership, Dr Trevor Phillips, currently the Group's Chief Operations Officer, will assume the role of Interim CEO on 1 July 2015 in the event that a new CEO is not in place by this time.

On 1 April this calendar year, we announced we had strengthened the Board with the appointment of Dr Per-Olof Andersson as a Non-Executive Director. Per-Olof has an international R&D track record within the pharmaceuticals, bio-pharmaceuticals and specialty pharmaceutical industries and considerable experience in respiratory therapeutic development. Per-Olof is a welcome addition to the Board. We will continue to strengthen our Board and place great importance on governance procedures.

Our people

The Board and I would like to thank the employees of Vectura, whose efforts helped us achieve so much this year and whose support helped position Vectura as a partner of choice by companies seeking to address the unmet medical needs of patients with airways disease. We recognise the importance of investing in our people and in particular ensuring that they have the skills and experience necessary to execute our business model and implement the transition of the Group.

Shareholders

We continue to be grateful to our shareholders for their support as Vectura makes the exciting journey to becoming a profitable specialty pharmaceutical company. Our aim is to continue to deliver shareholder value.

Outlook

This year saw Vectura achieve record financial results, which is testament to the skills and experience of our people. The foundations are in place for the next stage of the journey and I believe that our strategy and business model will continue to result in growth of shareholder value.

Bruno Angelici
Chairman
19 May 2015

SIGNIFICANT PROGRESS FOR FUTURE GROWTH

"

We now have a strong platform to take Vectura to the next phase of its journey to become a specialty pharmaceutical company.

Delivering our strategy

This has been another year of significant progress for Vectura. Our revenue continues to grow, driven by increasing royalty income as our partnered products continue their global roll-out, and I am very proud that we have reported a maiden profit after tax for this year. Our business focus continues to optimise return on investment in our development pipeline. At our interim results in November 2014, we announced we had evaluated the strategic perspectives of our business through a thorough evaluation of our development portfolio, maintaining alignment with the evolution of our business model. This resulted in a prioritisation of our R&D expenditure, with an emphasis on attaining value inflection points within our strategic horizon to 2021. Vectura has become an established expert and 'partner of choice' in the development of products for airways diseases. This can be seen from the products that have already been brought to market by our partners and the development and partnership deals that we have announced over the last twelve months. Leveraging value from the Company's technologies, via our own projects with partners, is critical for Vectura to deliver its strategic goal.

Our operational performance

At the start of the year, the US launch of Anoro® Ellipta® by GSK triggered a milestone payment to Vectura associated with our licence agreement. Two further milestone payments were received for VR315 US, illustrating the continued progress being made in the development of this asset, a major component of our high value respiratory generic portfolio in the US. Extending this successful collaboration, we announced a US licence agreement for our product VR506 with the same, undisclosed US partner. This is an important step for the development of VR506 and provides additional third-party validation of our expertise and know-how in the development of inhaled drug assets.

Last year also saw the publication of Phase IIb/III trial results for Vectura's wholly owned, investigational drug/device combination VR475 EU. A further clinical trial will commence in the middle of 2015.

We had a successful start to this calendar year when, in January, Vectura signed a global development and licence agreement with Janssen, utilising Vectura's formulation technology/device platform offerings in a deal that comprises upfront and development milestones and a tiered royalty on net sales. In addition, Novartis, announced it had completed US FDA submissions for QVA149 and NVA237, which were subsequently accepted, triggering significant milestones for Vectura. Novartis expects US FDA action in the fourth quarter of 2015.

Strategic report

Products, pipeline and R&D

Our pipeline review prioritised our portfolio and aligned our resources to ensure that our investment in R&D is measured, controlled, realises value near term and is supportive of our strategy.

Our near-term priorities are to:

- accelerate the overall value of our existing pipeline; and
- demonstrate value realisation in our pipeline within our strategic horizon to 2021.

The development focus of the Group will change over time towards value realisation from later-stage products and revenue-generating opportunities in the near term, exemplified by the Janssen deal.

Working in partnerships

Our aim, to develop long-term business alliances, continues with a new co-development partnership established with Janssen in January 2015. During the year, existing collaborations with partners including Sandoz and Novartis continued to develop and now show strong revenue streams. We are focused on cementing and developing all our key relationships by ensuring that management and governance of the partnerships is effective, long-term value is delivered and Vectura further develops its reputation as a partner of choice.

Organisational changes

As a result of the enlarged organisation and as we implement our corporate strategic and operational plans, the Company announced some significant management changes in January. Andrew Oakley joined Vectura as Chief Financial Officer and Company Secretary and Executive Board Director and we also welcomed Joanne Hombal, who joined as Director of Human Resources and a member of the Executive Management Team.

Post-period, in April, we announced that we would be transferring all activities from our Gemünden site to the remaining three Vectura facilities. The Gemünden site will be closed by March 2016. The acquisition of Activaero GmbH provided Vectura with people and technologies that will help shape the future of Vectura. To that end, I would like to express our sincere gratitude to Gerhard Scheuch, who will leave Vectura on 31 July 2015, leaving behind a positive legacy upon which the Company can build.

Our people

I am very proud of the quality and dedication of our people. I would like to take this opportunity to express my gratitude to all employees of the Group, past and present, for their commitment and hard work. In February this year, I announced that, after more than twelve years at Vectura, eleven of those as Chief Executive, I would step down to take on new challenges, confident in the legacy and team that takes Vectura to new heights. I am intensely proud of what has been achieved over the past twelve years and would like to thank all our stakeholders for their support.

Outlook

After another year of significant progress, we are in a strong position to continue to implement our business model and strategy. We are confident that this strategy will enable us to continue to build on the existing platform and ultimately deliver a successful specialty pharmaceutical business.

Dr Chris Blackwell
Chief Executive
19 May 2015

EXCITING PROSPECTS IN A GROWING MARKET

Our markets

Our current addressable market falls into six main indications in airways-related diseases

1 Asthma

Product pipeline status

Partnered
Generic
Branded
Wholly owned

Market need

Asthma is a heterogeneous, chronic inflammatory airways disease that is characterised by variable respiratory symptoms, recurrent episodes of reversible expiratory airflow limitation and episodic acute exacerbations of symptoms. In recent years it has become clear that asthma can be the result of a range of inflammatory changes which can be addressed by different therapeutic interventions. An unmet need remains, particularly in the treatment of severe or 'difficult-to-control asthma'.

Market opportunity

Vectura works, alone and in partnerships, on anti-inflammatory programmes across the spectrum of asthma encompassing generic single therapy (VR506), combination therapy (AirFluSal® Forspiro®, VR315US, VR632), severe asthma (VR475, VR588) and paediatric asthma (VR647) utilising its proprietary formulation and device inhalation technology to develop new and cutting-edge solutions to meet the need for effective, patient-focused control of asthma.

Statistics

- It is suffered by approximately 250 million subjects worldwide and its incidence is growing[1]
- WHO forecasts a further 100 million suffers by 2025[1]

2 Chronic obstructive pulmonary disease (COPD)

Product pipeline status

Partnered
Branded

Market need

COPD is a progressive, poorly reversible obstructive airways disease of airflow limitation typically caused by toxic particle inhalation. Smoking is the major cause, but biomass smoke and industrial noxious particulates or gases also cause the condition by triggering a chronic inflammatory response in the airways and the lungs. Symptoms are dyspnoea (shortness of breath), cough, mucus production and exercise limitation. Patients often experience infection-driven exacerbations of symptoms which speed up decline of lung function[2].

Market opportunity

There is no cure for COPD so treatment is centred on control of symptoms via the use of bronchodilator and anti-inflammatory agents. Vectura has been at the forefront of the latest generation of bronchodilator development via its collaboration with Novartis in the development of NVA237 now approved as Seebri® Breezhaler® and QVA149 approved as Ultibro® Breezhaler®.

- COPD is currently the fourth biggest killer worldwide[3]
- WHO estimates that currently 64 million people have COPD and that COPD will become the third leading cause of death worldwide by 2030[3]
- Chronic lower respiratory disease, primarily COPD, was the third leading cause of death in the United States in 2011[4]

* To view the original source for all footnotes, please refer to page 116.

3 Influenza

Product pipeline status

- Partnered
- Branded

Market need

Infection with the influenza virus is a well-recognised phenomenon because of its annual occurrence around the world. It represents a major target of anti-infective strategy (both vaccination and treatment) in many countries[5]. The young, old and sick are at most risk from influenza and are the target of therapeutic approaches available (vaccination and anti-viral treatment), all of which have their limitations to efficacy[6,7].

Market opportunity

Vectura's VR736 programme is investigating the role of an approved drug with novel anti-viral effects when delivered as a nebulised formulation using proprietary Vectura delivery technology in patients with severe influenza infections that have resulted in hospitalisation. An ongoing Phase II clinical trial is due to report out during 2015.

- approximately 3–5 million cases worldwide of severe illness per annum[5]
- approximately 250,000–500,000 deaths per annum[5]

4 Cystic fibrosis (CF)

Product pipeline status

- Partnered
- Branded

Market need

Cystic fibrosis (CF) is a genetic, life-limiting disorder affecting a number of organ systems but with significant effects in the lungs. The genetic mutation affects a protein whose role is key in the production of mucus, sweat and digestive enzyme fluids, and results in those fluids becoming thick. In the lungs this results in accumulation of mucus and long-term issues include difficulty in breathing and coughing up sputum resulting from frequent lung infections. There remains no cure for CF, with all approved therapy directed at symptom reduction, e.g. physiotherapy, antibiotics and mucus thinning agents. Lung transplantation is an option in some circumstances.

Market opportunity

Vectura is engaged in partnership with the Spanish company Grifols in exploring the use of alpha-1 anti-trypsin for the treatment of CF (VR179).

- Life expectancy is now between 35 and 50 where optimised treatment is available[8]
- In Europe and the USA the incidence of CF is in the order of 1 in 2,000–3,500 newborns[8]

> Population growth and rising wealth, particularly in developing economies, continue to expand the global market for pharmaceuticals.

Our markets continued

5 Human respiratory syncytial virus (RSV)

Product pipeline status

Partnered

Branded

Market need

RSV is a major cause of respiratory tract infections in infants. The virus is active globally. There remains a high unmet need for a more effective and conveniently delivered treatment.

Market opportunity

This need is the basis of the collaboration with Ablynx NV (VR465), in which Vectura is providing advanced nebulisation technology aimed at inhaled delivery of a novel treatment for RSV to infants.

Statistics

- 60% of US children are infected during their first winter season[9]
- Nearly all children infected by the age of two[9]
- Of those infected, 25–40% will develop signs of airway inflammation (bronchiolitis) and lung infection (pneumonia) with around 1–2% needing to be hospitalised[9]

* To view the original source for all footnotes, please refer to page 116.

6 Pulmonary arterial hypertension (PAH)

Product pipeline status

Partnered

Branded

Market need

PAH is the occurrence of raised pressure in the pulmonary artery caused by pathological changes that result in narrowing and thickening of the arterial wall and consequent impairment of blood flow through the lungs. Over time this leads to lowered body oxygen levels and cardiac failure.

Market opportunity

Current therapy options rely chiefly on a range of vasodilatory drugs, none of which are able to reverse progression. A small number of patients are suitable for lung transplantation. But there remains a large unmet need in the treatment of PAH.

Vectura's collaboration in this area (VR876) seeks to improve on the delivery of a known, effective treatment by increasing the local delivery to the pulmonary vasculature using Vectura's FOX™ technology.

- 15–50 patients/million population[10]
- Five-year survival rates of 50–60%[11]

Read more about our pipeline and each product phase in more detail on **pages 30 to 33**

Growth drivers

Population growth, increasing longevity and rising wealth, particularly in developing economies, continue to expand the global market for pharmaceuticals. In addition there are a number of specific factors affecting the market, in particular downward pressure on healthcare costs, regulatory challenges, legally controlled pricing, the cost of developing and protecting intellectual property and intensifying competition from generic products.

Expanding patient populations

The world population is expected to rise from its current level of some 7bn, to reach 9.6bn by 2050[12]. In addition, the number of people who can access healthcare continues to increase, particularly among the elderly. Globally, it is estimated that between 2000 and 2050 the number of people aged 60 years and over will increase from 605m to over 2bn[13].

Unmet medical need

In most established markets, ageing populations and certain lifestyle choices such as smoking, poor diet and lack of exercise are increasing the incidence of non-communicable diseases, such as airways-related diseases, which require long-term management.

Advances in science and technology innovation are critical if we are to address unmet medical need. Existing drugs will continue to be important in meeting the growing demand for healthcare, particularly with the increasing use of generic medication. The use of large molecules, or biologics, has also become an important source of innovation, with biologics among the most commercially successful new products.

The respiratory market is dominated by a small number of companies. Inhalation products are complex dosage forms, which are challenging to develop within a strict global regulatory environment. Volume growth is expected to continue as demand in the developing world expands.

Vectura is one of only a few independent product development companies able to meet the challenges of the market for inhaled therapies to treat airways diseases. The Group has proven technologies and expertise in the development of inhalation products incorporating dry powder inhalers (both branded and generic) and smart inhalation systems utilising nebulisation.

Our position

The Group's specialism and expertise in inhaled product development puts us in a good position to meet the regulatory requirements for successfully bringing to market branded and generic inhalation drugs. To optimise benefit to patients and maximise value from global opportunities, we are focusing on both the branded and generic respiratory product markets. Vectura has proprietary technology for a range of inhalation devices covering approximately 57% of the inhaled market in the G8 (US, Japan and EU5)[9].

Dry powder inhalation ("DPI") products for asthma and COPD generated sales in excess of $10bn[14] a year in 2013 in the G8 and is growing. Recent trends show increasing use of DPIs with the majority of the new products approved in the US since 2013 being DPI based. In total, 10 new inhaled asthma, COPD and cystic fibrosis products have been approved during this period – 6 DPIs, 3 pMDIs "pressurised metered dose inhaler", and 1 nebulised.

The Group's specialism and expertise in inhaled product development puts us in a good position to meet the regulatory requirements for successfully bringing to market branded and generic inhalation drugs. There are relatively few competitors working on complex, inhaled generic products, and new market opportunities are emerging that provide potential for growth.

* To view the original source for all footnotes, please refer to page 116.

OPTIMISING AND ACCELERATING RETURN ON INVESTMENT

Vectura has become an established expert and partner of choice in airways diseases product development. We are evolving our business model to leverage that reputation for maximum value.

LEVERAGING OUR STRENGTHS

Innovative technologies – formulation, device design and development and smart inhalation systems

Extensive market knowledge enabling us to take advantage of viable opportunities through technology, products and people

Developing assets with focused investment using an established project management framework

Highly developed in-house expertise from a talented, experienced and committed team of individuals

TO MAXIMISE PIPELINE POTENTIAL

Choice of routes to market

Partnering
Acquisition of knowledge
Transfer of skills
Intellectual companionship
Larger network
Validation of technology and expertise

Co-development
Interaction with partners
Rapid transfer of skillsets
Increased collaboration

Self-commercialisation
Capturing value
Control over commercialisation process
Co-promotion in marketing and distribution could be the first step

REVENUE IMPACT

Co-development and co-promotion enable access to innovate and commercialise knowledge

IN ORDER TO BECOME

A specialty pharmaceutical company focused on the development and commercialisation of innovative pharmaceutical products to address the unmet need within airways-related diseases

REALISING VALUE FOR

Patients Partners Shareholders Our people

From an out-licensing strategy…

The Company is undergoing a transition from a pure out-licensing strategy where we provided formulation and/or device (DPI and nebuliser) in return for milestones and royalties upon sales. This model has been validated by a wide range of successful licensing agreements with a broad spectrum of companies, from small biotechnology firms to multinational pharmaceutical companies.

…to a hybrid business model

The next step is to implement a hybrid business model that builds upon the success of our licensing/royalty model but also offers additional business options including co-development, where Vectura commits additional resources in return for higher rewards, ultimately seeking self-commercialisation capability in niche therapeutic areas where a small focused sales force would be applicable.

How it works

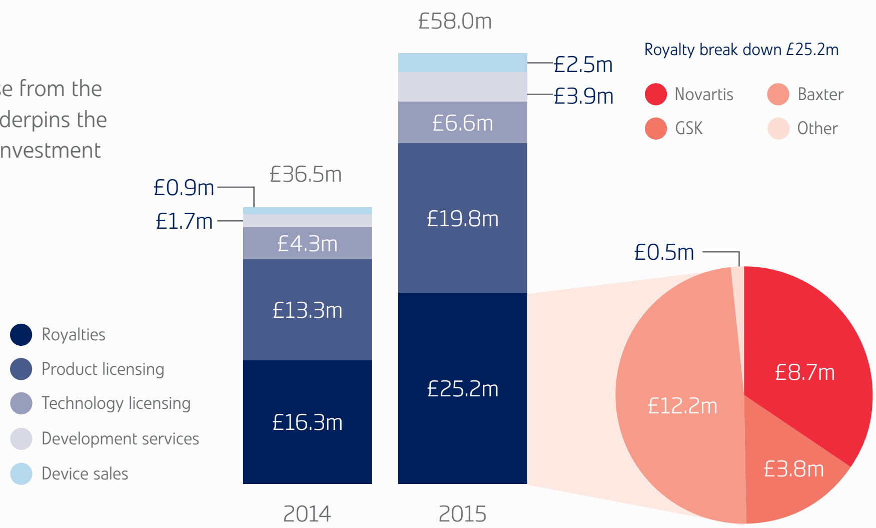
The execution of this hybrid model allows for optimising value realisation across the spectrum of airways-related diseases, partnering with large pharmaceutical companies for large indications such as asthma and COPD, whilst exploring increased economic returns in more niche areas.

How we get there

The sustainable development of our business model is based on balancing unmet need with commercial attractiveness and financial discipline. In practice, this also means we will selectively develop portfolio assets to maximise our return on investment by continually evaluating the balance between developing assets in-house and licensing to a partner at an appropriate stage.

How we generate revenue

The diversified and rapidly growing revenue base from the commercialisation of our partnered products underpins the cash flow to develop our pipeline and maintain investment in technology.



OUR STRATEGIC PLAN OF ACTION

1 Creating the value cycle

Priorities

- Transform the business into a significant, profitable and self-sustaining specialty pharmaceutical company
- Expand development portfolio
- Mitigate specific product development and market risk
- Appropriate deal making through in-licensing, co-development and acquisition
- Deliver superior returns for shareholders
- Our technologies underpin our products and pipeline focus. The cash flow from the commercialisation of our products will be invested in a balanced way to develop our pipeline and maintain our technology leadership, thereby creating the Vectura value cycle

Future outlook

- Continue to grow our revenue streams and manage our portfolio risk
- Prioritise investment into our pipeline assets and make appropriate commercialisation choices
- Recognise that such a strategy requires careful investment, and that we cannot take on every opportunity open to us. We must continue to expand our revenue streams and manage our portfolio risk, prioritise investment into our pipeline assets and make appropriate commercialisation choices
- Aim to maintain our technology leadership within inhaled medicine through appropriate investment in people and processes and robust defence of IP

KPI

Revenue growth

2 Leveraging our technology base

Priorities

- Technologies underpin our product-to-pipeline focus
- Creation and protection of our underlying intellectual property assets
- Continue to leverage investment in our technology and device platforms, intellectual property and general know-how
- Continue to provide low risk revenue generation within a structure that allows for the generation of future royalty streams
- Maintain our technology leadership within inhaled medicine through appropriate investment in people and processes and robust defence of IP
- Maintain a substantial portfolio of more than 100 patent families, many of which comprise granted European and US patents

Future outlook

- Develop more innovative products that address the needs of patients, physicians and payors
- Our returns will arise from collaborations with other parties, where we earn milestone payments and royalties from development and commercialisation
- We seek to add collaboration agreements with new and existing partners through our DPI and smart inhalation technologies

KPI

Revenue growth + Innovation performance measure

Read more about our KPIs on **pages 18 and 19**

Read more on our risks on **pages 20 to 25**

3 Progressing our pipeline

Priorities

- Build a profitable cash-generative business through a specialist therapeutic focus and progress our development portfolio within airways diseases
- Broaden and deepen our development pipeline covering a wide range of indications within the category of airways-related diseases

Future outlook

- We have set out our intended development pathway for VR475 in Europe and clinical trial activities have started. Our anticipated filing date for VR475 remains 2018
- We intend to continue to develop our pipeline within tight parameters to maintain our record of capital discipline
- It is our intention to continue to prioritise our development pipeline and to drive the R&D to its earliest value inflection point

KPI

Pipeline progression performance measure

4 Making appropriate commercialisation choices

Priorities

- Continue with existing partnering model to access those markets, such as COPD and asthma, that require large general sales forces
- Endeavour to maximise the economic return to shareholders, which will involve sharing an increased level of risk in certain indications
- Seek increased economics in the co-development portion of our business model which also has the important effect of increasing the knowledge base of our own staff

Future outlook

- Consider co-promotion or self-commercialisation of certain assets to harness economic returns
- Commercialisation options will be restricted to therapeutic indications which can be addressed by a small, cost-effective and focused sales and marketing infrastructure
- The Group will continue to evaluate the commercial landscape to identify assets and companies that have appropriate infrastructure, as well as meeting key financial criteria such as being revenue enhancing and accretive on a cash earnings basis

KPI

Revenue growth + Innovation performance measure

MEASURING OUR PERFORMANCE AGAINST STRATEGY

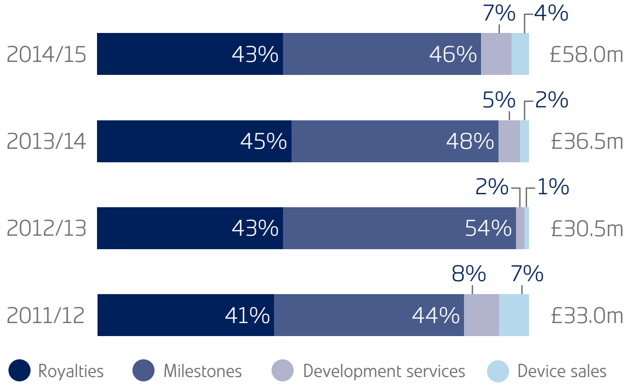
Vectura's Board and management rigorously monitor the progress of our business, maintaining strict financial discipline, to facilitate achieving our key strategic objective of becoming a profitable, self-sustaining and cash-generative business.

We measure performance against our strategy based upon a range of financial and non-financial KPIs. The key financial indicators we monitor are revenue growth, EBITDA progression and free cash flow. These have been selected to demonstrate our progress towards executing our key strategic objective, reflecting our history of acquisitions and our investment plans. Vectura's bonus scheme uses similar metrics to assess financial performance against targets; refer to page 70 for more information.

Financial KPIs

Revenue growth

Revenue increased by 59% to £58.0m, mainly driven by increased royalties from recently marketed products and significant milestone achievements. Revenue generated by royalties has increased significantly over the last two years, and this trend is expected to continue in future years. Growing and sustainable royalty revenues will provide stability and cash-resources to fund future growth and investment.



EBITDA

EBITDA is a measure of Vectura's underlying operating performance. As shown on the face of the consolidated income statement, EBITDA is calculated by adjusting Vectura's operational result for non-cash and non-recurring items. A positive EBITDA shows Vectura's ability to generate returns on investment over time. EBITDA has increased to £16.2m (2013/14: £5.2m) and this reflects a £21.5m increase in revenue, offset by continued and measured investment in research and development activities.

Free cash flow

Careful management of cash resources is vital to ensure that Vectura is able to develop and augment its pipeline assets. Free cash flow (FCF) is a measure of the cash investment required to support Vectura's operations and it is defined as the net cash flow from operations, less net capital expenditure. Free cash flow increased to £6.6m during the year, despite the large negative working capital movement which is due to the timing of milestone receipts being received by the Group.

Non-financial KPIs

Innovation performance measure

Innovation is the foundation of our business and the Company continues to invest in its people and its technologies. This investment is important to enable us to deliver our strategy and maintain our position as a key enabler of inhaled product delivery within the field of airways-related diseases.

- Number of patents filed/registered

	2014/15	2013/14	2012/13
Total patent families	107	100	107

Pipeline progression performance measures

Successful product development is key to creating long-term value. Our development pipeline encompasses a broad range of assets across various stages of development and includes partnered as well as wholly owned assets.

- Number of project milestones completed
- Number of clinical studies completed to stated time

	2014/15	2013/14	2012/13
Project milestones completed	9	13	4
Clinical studies completed	1	2	1

Alliance performance measures

Our hybrid business model allows for appropriate deal structures for business opportunities based on a rigorous assessment of the associated risk, expenditure, and time to value realisation. This allows for an appropriate balance of risk and reward and is a key element of our strategy and also provides operational focus.

- Number of successful feasibility outcomes
- Number of alliances established

	2014/15	2013/14	2012/13
Number of successful feasibility outcomes	6	3	1
Number of alliances established	2	2	0

IDENTIFYING AND UNDERSTANDING KEY RISKS TO THE BUSINESS

Our ability to meet our goals and objectives may be affected by a number of risks and uncertainties relating to our strategy, business model and operating environment. Our approach to risk management is to develop and implement a risk management process which will ensure that significant risks are identified, assessed, managed and reported to relevant stakeholders in a concise and timely manner to inform and support decision making.

Objectives of the Vectura risk management process:

- to identify and understand the risks that Vectura faces in the execution of its strategy and the operation of its business model;
- to ensure that the risk appetite of the Board is embedded throughout the organisation and fully understood by those who are responsible for managing risk and making key decisions across the business;
- to assess the potential impact of identified risks and to create and maintain a register of these risks, documenting the decisions taken and the judgements made;
- to ensure that appropriate mitigating actions and controls are in place for all identified risks and that the residual risk is aligned to the risk appetite of the Board;
- to control systematic risks within the organisation by maintaining and improving a system of internal controls to manage risks in decision making, legal contract management, quality and regulatory processes and the processing of financial transactions; and
- to ensure that identified risks are reported to relevant stakeholders in a timely manner to facilitate effective decision making.

Vectura's Audit Committee reviews the effectiveness of the Group's risk management process on behalf of the Board. In reviewing the effectiveness of the process, the Audit Committee recognises that such a process is designed to understand and mitigate, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Setting the tone

The Board

Accountable for ensuring that a sound system of risk management and internal control is in place

Responsible for conducting an annual effectiveness review of the Group's risk management and internal control systems. This review covers all material controls, including financial, operational and compliance controls. The scope of this review extends to a review of the Group's principal risks

Responsible for reporting to shareholders about the Group's risk management

Designing the system

Executive Management Team

Responsible for ensuring that the risk management and internal control systems are appropriately designed and implemented

Responsible for ensuring that the risk appetite of the Board is appropriately understood by risk owners and key decision makers

Responsible for reviewing the business-wide and project risk registers

Responsible for conducting an annual assessment of strategic risks for discussion at Board level

Completing the review

Heads of departments and projects

Responsible for updating department and project risk registers and reporting significant risks to the Executive Management Team

Responsible for implementing and monitoring any mitigating actions and controls

Responsible for training and educating department and project team members about Vectura's risk management process

Review of process and outputs

Review of high risks

Risk registers

Read more on our principal risks and uncertainties over the page

Our principal risks and uncertainties

The principal risks specific to our business have been outlined below together with an explanation of how we manage and mitigate them. Some of these risks are specific to the Group and others are more generally applicable to the pharmaceutical industry or specific markets within which Vectura operates.

Risks specific to the Group:

Strategic risks

1. Implementation of strategy

In order to become a specialty pharmaceutical company, Vectura needs to transition to a hybrid business model focused on driving R&D to its earliest inflection point for value realisation whilst actively evaluating the landscape for attractive M&A opportunities.

Delivering this strategy requires significant decisions to be made, including decisions on M&A activity, investment capex and balance of product development versus partnerships.

Failure to make these strategic decisions in a timely manner may mean that strategic or commercial opportunities are missed or are not maximised. Perceived exposure to this risk may increase as a result of recent changes within the management team.

Mitigating activities

Vectura's strategy has been endorsed by the Board and communicated to shareholders through the Annual Report, corporate website and through management presentations at investor conferences.

2. Identification and execution of merger and acquisition activity and integration of acquired businesses and assets

Vectura is at a pivotal point in its maturity and strategic direction, and in order to deliver our Board-approved strategy of becoming a specialty pharmaceutical company we must undertake further M&A activity. Realising anticipated benefits from such acquisitions depends upon how well we identify M&A targets, how well we conduct due diligence and how well we integrate acquired businesses and assets into our business operations.

A shortage of skills, experience and transactional capability in certain aspects of M&A due diligence and post-acquisition integration could result in the sub-optimal management of acquisitions, eroding enterprise value and delaying our transition to a specialty pharmaceutical company.

Mitigating activities

We have established processes in place to manage acquisitions and the associated due diligence prior to acquisition. Our internal due diligence teams are supported by external subject matter experts to ensure that the wider due diligence team has the appropriate breadth and depth of knowledge and experience.

Structured post-acquisition integration plans are established to ensure that integration is executed successfully.

3. Recruitment and retention of key employees

Vectura operates in a specialised industry and in order to deliver against our strategic objectives we require highly skilled and experienced employees. Challenges in attracting, retaining and motivating such employees may impact our ability to maintain performance levels and to deliver against our strategic growth objectives.

Mitigating activities

A comprehensive review of total remuneration packages is underway to ensure that our pay and benefits are market competitive.

Vectura is positive about developing all employees for current and future roles and our career development and talent management programmes remain a key area of focus for our management team. We continue to invest in ongoing training and development.

Succession plans for key roles are being developed to ensure that a talent pool is identified, developed and ready for succession.

Operational risks

4. Operational disruption

A significant and prolonged disruption to a research and development or manufacturing operation upon which Vectura relies could result in a substantial loss of royalty revenues, other liabilities or a significant delay to a development programme.

Mitigating activities

Vectura identifies key suppliers in relation to its business and, where possible, alternative sources of supply are sought, although this is not always economically feasible.

Where appropriate, Vectura holds duplicates for business-critical equipment. We have established good working relationships with the manufacturers of business-critical equipment and we monitor our supplier relationships to ensure effective and responsive service levels.

Contingency is built into product development plans, and Group-wide business continuity plans have been established. Our operational team is currently reviewing our business continuity procedures and intends to undertake crisis simulations to test the robustness of our arrangements.

Vectura has insurance, subject to certain exclusions and deductibles, against the usual insurable perils, such as property damage and other business interrupting events.

Increase

Decrease

Stable

Financial risks

5. Foreign exchange risk

A substantial proportion of the Group's income from collaborative agreements is received in US dollars and euros and expenditure is predominantly incurred in pounds sterling. To the extent that Vectura's foreign currency assets and liabilities are not matched, fluctuations in exchange rates between pounds sterling, the US dollar and the euro may result in realised or unrealised exchange gains and losses on translation of the underlying currency into our presentational and functional currency of pounds sterling. Such gains or losses may increase or decrease Vectura's operating result and may adversely affect Vectura's financial condition, each as stated in pounds sterling. In addition, if the currencies in which the Group earns its revenues and/or holds its cash balances weaken against the currencies in which it incurs its expenses, this could adversely affect profitability and liquidity.

Mitigating activities

Where known foreign currency liabilities arise, foreign currency revenue receipts are retained on deposit in the appropriate currency in order to offset the exchange risk on these liabilities. As at 31 March 2015, the Group had sufficient euro and US dollar reserves to cover its immediate and short-term liabilities in respect of these currencies.

Where a substantial net foreign currency liability exists, Vectura will consider hedging against it to minimise foreign currency expense. However, such hedging is based on estimates of liabilities and future revenues and will not fully eliminate future foreign currency exchange fluctuations.

Broader risks specific to the pharmaceutical industry

6. Regulatory approvals

The international pharmaceutical industry is highly regulated by governmental authorities in the UK, the US and Europe and by regulatory agencies in other countries where Vectura or a collaborator intends to test or market products they may develop. These regulatory requirements are a major factor in determining whether a substance can be developed into a marketable product and the amount of time and expense associated with such development. There can be no assurance that Vectura's, or a collaborator's, products will receive and maintain regulatory approvals. Even if products are approved, they may still face subsequent regulatory difficulties. Such difficulties may result in financial loss and reputational damage.

Mitigating activities

We work closely with expert regulatory advisors and, when appropriate, seek advice from regulatory authorities on the design of key development plans for pre-clinical and clinical programmes.

In respect of our collaborations and partnerships, we work with a number of blue-chip pharmaceutical partners such as Novartis, Sandoz, Baxter and GSK, who have significant regulatory expertise.

7. Unforeseen side effects

All drugs have a risk of adverse reactions and side effects and therefore unforeseen side effects may result from the use of Vectura's, or a collaborator's, products or product candidates. This is an inherent risk which may be identified at any time, even after a product has been approved and sold commercially. Discovery of unforeseen side effects, other than those acceptable to the regulators, may result in a substantial loss of royalty revenues, other liabilities, a significant delay to a development programme or withdrawal or suspension of regulatory approval.

Mitigating activities

Vectura and its collaborators conduct extensive pre-clinical and clinical trials, designed to test for and identify any adverse side effects. In addition, there is a significant amount of safety data available regarding existing marketed products to which our generic products relate.

Broader risks specific to the pharmaceutical industry **continued**

8. Partnerships

Vectura currently has a number of strategically important partnerships, collaborations and licensing arrangements for development, manufacture and commercialisation of certain of its pipeline assets. Loss of any one of our strategically important partnerships, collaborations or licensing arrangements could have a material impact on Vectura's future prospects. Vectura is also reliant on suppliers for the development and manufacture of certain devices. Any poor performance of the third parties could delay or prevent devices from being successfully developed and delivered to plan. This could result in key development milestones being missed or associated payments being delayed and could also affect partners' confidence in Vectura's ability to deliver.

Mitigating activities

Vectura has an agreed process for managing entering agreements and this includes appropriate oversight and approval at Board level. All collaborations are performed under a suitable legal agreement which is assessed by Vectura and its external legal advisors.

Typically, for collaborations a Joint Steering Committee (JSC) will be established, which provides a mechanism by which Vectura can ensure that any joint project team activity is managed appropriately within our standard project management processes.

An alliance manager is identified for all licensing partnerships or contract research organisation engagements.

9. Pricing and reimbursement

Vectura or our collaborators may not be able to sell its products profitably if reimbursement from third-party payors, including government and private health insurers, is unavailable or limited.

A significant portion of Vectura's future revenue is likely to depend on payments by third-party payors, including government health administration authorities and private health insurers. As such, Vectura may be adversely affected by third-party reimbursement and healthcare cost containment initiatives.

Vectura may not be able to sell its products profitably if reimbursement from these sources is unavailable or limited. Third-party payors are increasingly attempting to contain healthcare costs through measures that are likely to impact the products Vectura is developing, including:

- challenging the prices charged for healthcare products, limiting both coverage and the amount of reimbursement for new therapeutic products, and denying or limiting coverage for new products that are approved by the regulatory agencies; and
- refusing to provide coverage when an approved drug is used in a way that has not received regulatory marketing approval.

In addition, in many European countries, there has been an increasing trend towards reference pricing, where the amount of reimbursement is determined in light of reimbursement levels for comparable drugs in other European countries. This is likely to severely restrict the potential per unit price for many new drugs unless such drugs can be significantly differentiated from existing products. If products developed by Vectura or its partners are not covered by government or other third-party reimbursement schemes, are reimbursed at prices lower than those expected by Vectura, or become subject to legislation controlling treatments or pricing, Vectura and/or its partners may not be able to generate significant revenue or attain profitability for any product candidates which are approved for marketing.

Mitigating activities

Where appropriate, products may be out-licensed to partners who have the expertise to commercialise products and negotiate pricing structures with third-party payors, especially in disease indications that require large sales forces. Should Vectura self-commercialise, this would be targeted commercialisation for niche products with significant unmet need, which requires a small sales force to target specialist physicians.

Our business model includes bringing highly innovative products to address unmet needs and we are also involved in a number of generics programmes which support government initiatives to reduce costs. This adds balance to our business model in an era of increasing cost containment.

10. Competition

Our business faces intense competition from a range of pharmaceutical and biotechnology companies. Technological changes could overtake the products being developed by Vectura or by its collaborators.

Our competitors in the biotechnology and pharmaceutical industries may have superior research and development capabilities, products, manufacturing capability or sales and marketing expertise. Many of our competitors have significantly greater financial and human resources and may have more experience in research, development and commercialisation. As a result, our competitors may develop safer or more effective products, implement more effective sales and marketing programmes or be able to establish superior proprietary positions. In addition, we anticipate that we will face increased competition in the future as new companies enter Vectura's markets and alternative products and technologies become available.

Mitigating activities

Vectura performs detailed reviews of the development process and progress of projects through trials.

For programmes managed in-house, Vectura has an established project management framework. The potential commercial opportunities for each project are assessed at the end of each stage of the project. Projects are assessed using widely accepted valuation metrics based upon discounted cash flows. These cash flows are discounted using a hurdle rate that is in line with industry standards and the expected return of each project is further risk adjusted by its phase of development. Vectura has experienced development and commercial teams who all contribute to this assessment. This in-house review is supplemented by well-regarded disease area reports and, where appropriate, bespoke market research.

Under this framework, research and development programmes will only be approved by the Board if it can be shown that the expected benefits outweigh the expected costs. All programmes are subject to a stage-gate approval process and in the event that it was no longer considered that future revenues would be higher than future costs, the Board would consider terminating or redefining the programme.

Where appropriate, the Group looks to mitigate the development and commercial risk of its product pipeline by partnering drug candidates at an appropriate stage. The partnering event crystallises part of the programme's value, with the goal of retaining an attractive proportion of the commercial upside through future milestones and an ongoing royalty interest from commercial sales. Vectura's current royalty generating products are expected to continue to provide royalties until patent expiry or until Vectura is no longer entitled to receive royalties in accordance with a licence agreement.

Vectura works closely with its advisors and obtains, where necessary, opinions on the intellectual property landscape relevant to the Group's product development programmes and manufacturing activities and processes. In addition, Vectura works with a number of key licensing partners who have significant expertise in the research, development and commercialisation of pharmaceuticals. These licensing partners have access to significant financial and human resources.

11. Product liability

In carrying out its activities Vectura will potentially face contractual and statutory claims, or other types of claim from customers, suppliers and/or investors.

Vectura is exposed to potential product liability risks that are inherent in the research, the pre-clinical and clinical evaluation, pre-clinical study, clinical trials, manufacturing, marketing and use of pharmaceutical products. Consumers, healthcare producers or persons selling products based on Vectura's and its collaborators' technology may be able to bring claims against Vectura based on the use of such products in clinical trials and the sale of products based on Vectura's technology.

Mitigating activities

Vectura maintains an appropriate level of product liability insurance and operates quality systems relating to the manufacture of products. Vectura has a pharmacovigilance system to monitor safety events arising with respects to products sold.

Vectura's insurance portfolio also includes other third-party liability insurances which would provide cover in the event of certain other contractual or statutory claims.

12. Intellectual property

Vectura's success depends in part on its ability to obtain and maintain protection for its inventions and proprietary information, so that Vectura or our partners can exclude others from making, using or selling its patented products. A failure to establish, maintain or enforce intellectual property which is significant to Vectura's competitive position may have a material impact on our future prospects.

Mitigating activities

Vectura owns a portfolio of patents and patent applications and is the authorised licensee of other patents. Processes are in place to ensure that patent applications are filed in a timely manner and that applications are prosecuted to grant and defended as appropriate.

Vectura has a dedicated IP team, who work closely with legal advisors and obtains, where necessary, freedom to operate and patentability opinions on the intellectual property landscape relevant to our product development programmes, manufacturing activities and processes.

Reasonable security measures are adopted to protect other intellectual property, including appropriate confidentiality provisions and agreements with collaborators, consultants and employees.

All our licensing and collaboration agreements contain provisions that underpin the strength and value of our patent estate and all staff are trained to help Vectura maximise patent value and identify opportunities for new patent protection.

MARKETED PRODUCTS
AT A GLANCE

We have eight products marketed by partners. We receive royalty income from sales of these products.

PARTNERED

Ultibro® Breezhaler® (EU & ROW)
(indacaterol/glycopyrronium bromide; QVA149)

Primary indication:
COPD

Partner:
Novartis

Description:
A novel, once-daily, dual bronchodilator approved in the EU as a maintenance bronchodilator treatment for adult patients with COPD.

History:
Glycopyrronium bromide was exclusively licensed to Novartis in April 2005 by Vectura and our co-development partner Sosei Group Corporation.

Progress:
Approved for use in over 60 countries, including countries within the EU, Japan, Latin America, Canada, Switzerland and Australia.

Seebri® Breezhaler® (EU & ROW)
(glycopyrronium bromide; NVA237)

Primary indication:
COPD

Partner:
Novartis

Description:
A novel, once-daily maintenance bronchodilator treatment for adult patients with COPD.

History:
Glycopyrronium bromide was exclusively licensed to Novartis in April 2005 by Vectura and our co-development partner Sosei Group Corporation.

Progress:
Approved for use in over 80 countries, including countries within the EU, Japan, Latin America, Canada, Switzerland and Australia.

AirFluSal® Forspiro® (EU & ROW)
(salmeterol/fluticasone; VR315)

Primary indication:
Asthma and/or COPD

Partner:
Sandoz

Description:
Innovative inhaler with inhaled combination therapy for asthma and/or COPD.

History:
Vectura initially developed the VR315 product and created the design of the innovative inhaler before licensing the asset to Sandoz in 2006.

Progress:
Approved in approximately 30 countries and launched in twelve European countries as well as South Korea and Mexico.

Photos of Seebri® Breezhaler® and Ultibro® Breezhaler® courtesy of Novartis AG. Ultibro®, Seebri®, Breezhaler®, AirFluSal® and Forspiro® are registered trade marks of Novartis AG.

PARTNERED continued

ADVATE® (Global)

Primary indication:
Haemophilia A

Partner:
Baxter

Description:
For the treatment of haemophilia A and is marketed worldwide by Baxter, from which Vectura earns royalties from sales.

History:
In 2000, Vectura granted worldwide rights to Baxter to use its stabilisation patents in its serum-free recombinant Factor VIII, ADVATE®.

Adept® (Global)

Primary indication:
Prevention of surgical adhesions

Partner:
Baxter

Description:
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.

History:
In December 2005, Vectura signed a licence deal with Baxter for the manufacture and distribution of Adept®.

LICENSED

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.

Anoro® Ellipta® (UMEC/VI)

Primary indication:
COPD

Technology licensee:
GSK

Description:
A multi-dose dry powder inhaler containing an anticholinergic, umeclidinium, and a long-acting bronchodilator, vilanterol, formulated by GSK using proprietary Vectura technology.

Relvar® Ellipta®/Breo® Ellipta®(FF/VI)

Primary indication:
Asthma, COPD

Technology licensee:
GSK

Description:
A multi-dose dry powder inhaler containing a steroid, fluticasone furoate, and long-acting bronchodilator, vilanterol, formulated by GSK using proprietary Vectura technology.

Incruse® Ellipta®(UMEC)

Primary indication:
COPD

Technology licensee:
GSK

Description:
A multi-dose dry powder inhaler containing an anticholinergic, umecildinum, formulated by GSK using proprietary Vectura technology.

Anoro® Ellipta®, Relvar® Ellipta®/Breo® Ellipta® and Incruse® Ellipta® are registered trade marks of GSK, photos courtesy of GSK

Read more about our product pipeline over the page

PRODUCT PIPELINE

We have prioritised our portfolio and aligned our resources to ensure that our investment in R&D is measured, controlled, realises value in the near term and is supportive of our strategy.

Our near-term priorities are to:

- accelerate the overall value of our existing pipeline; and
- demonstrate value realisation in our pipeline within the strategic period to 2021.

The development focus of the Company will change over time. Our current partnered programmes are unaffected and partner obligations are contractual and must be supported. However, we will seek to focus on value realisation from later-stage products, and from an increased number of revenue-generating opportunities in the near term arising from the considerable interest in our capabilities.

PRE-CLINICAL

VR588
Severe Inflammatory Airways Disease

(Global)

VR588 is a broad-based, potent and selective pan-JAK inhibitor

VR942 (UCB)
Inflammatory Airways Disease

(Co-development global)

VR942 has the potential to be the first inhaled, highly differentiated biological therapy for severe airways disease

1 PHASE I

VR475
FAVOLIR®

Severe Uncontrolled Adult Asthma

(US)

VR475 FAVOLIR® is an investigational product that comprises the inhaled corticosteroid budesonide delivered with Vectura's smart nebuliser, the AKITA® JET

VR465 (Ablynx)
RSV Infection

(Global)

Anti-RSV Nanobody® ALX-0171 for the treatment of RSV in infants

2 PHASE II

VR096 (Janssen)
Anti-inflammatory Asthma/COPD

(Global)

Novel anti-inflammatory therapies for the treatment of asthma/COPD

VR647
SCIPE

Paediatric Asthma

(Global)

The Safe Corticosteroid Inhalation in Paediatrics (SCIPE) programme aims to provide additional benefit to persistent asthmatics under the age of eight

VR647 SCIPE is an investigational product that comprises the inhaled corticosteroid budesonide delivered with Vectura's smart nebuliser, the AKITA® JET

VR179 (Grifols)
Cystic Fibrosis

(Global)

VR179 is a nebulised alpha-1-antitrypsin product

VR736 (Ventaleon)
Severe Influenza

(Global)

VR736 is an inhaled treatment for hospitalised patients with severe influenza

Branded
Generic
Partnered
Wholly owned

3

PHASE III

VR475
FAVOLIR®

Severe Uncontrolled Adult Asthma

(EU)

VR475 FAVOLIR® is an investigational product that comprises the inhaled corticosteroid budesonide delivered with Vectura's smart nebuliser, the AKITA® JET

VR876
(Undisclosed partner)
Pulmonary Hypertension

(Europe)

Nebulised version of a currently marketed drug using Vectura's FOX™ device

FILED

NVA237 (Novartis)
COPD

(US)

Twice-daily (glycopyrronium/bromide) 12.5mcg. Maintenance bronchodilator treatment for COPD in adults

Novartis expects US FDA action in Q4 2015

QVA149 (Novartis)
COPD

(US)

Twice-daily (indacaterol/glycopyrronium bromide) 27.5/12.5mcg. Maintenance bronchodilator treatment for COPD in adults

Novartis expects US FDA action in Q4 2015

GENERICS

VR315
(Undisclosed partner)
Asthma and COPD

(US)

VR315 is an inhaled combination therapy for asthma and COPD

VR506
(Undisclosed partner)
Asthma

(US)

VR506 is an inhaled corticosteroid for the treatment of asthma

VR632 (Sandoz)
Asthma and COPD

(EU)

VR632 is Vectura's second inhaled combination therapy for asthma and COPD

Read more over the page for details of each project

BRANDED AND GENERIC INVESTIGATIONAL DRUGS
(PARTNERED AND WHOLLY OWNED)

PRE-CLINICAL

VR588 Severe Inflammatory Airways Diseases (Global)

VR588 is a broad-based, potent and selective pan-JAK inhibitor that demonstrates a pharmacokinetic profile suitable for development as an inhaled treatment. Pre-clinical development activities have progressed successfully and VR588 will soon commence Phase I-enabling inhalation toxicology studies.

- Initial focus on asthma; multiple additional indications possible
- Minimise investment and focus on activities that generate data to support licensing

VR942 (UCB) Inflammatory Airways Disease (Co-development global)

VR942 has the potential to be the first inhaled, highly differentiated biological therapy for severe airways disease. Vectura market research indicates an overwhelming US physician preference for inhaled rather than parenteral administration of such a product.

The VR942 programme is a co-development deal with UCB for a novel therapy currently at the pre-clinical stage. The programme has moved successfully through a number of pre-clinical milestones.

1 PHASE I

VR475 Severe Uncontrolled Adult Asthma FAVOLIR® (US)

VR475 is an investigational product that comprises the inhaled corticosteroid budesonide, delivered with Vectura's smart nebuliser system, the AKITA® JET.

- Following the revised development strategy for FAVOLIR® in the EU, a similar approach will be sought for the US
- Development plan will be discussed with FDA post completion of the EU clinical study
- Targets an increased market opportunity

VR465 RSV (Ablynx) Respiratory Syncytial Virus infection (Global)

The Belgian biotech company, Ablynx, is developing the anti-RSV Nanobody® ALX-0171 for the treatment of RSV infections in infants. Ablynx has demonstrated favourable tolerability and PK of ALX-0171 in three Phase I trials. Ablynx opened recruitment for the first-in-infant Phase IIa study with ALX-0171 in December 2014. If recruitment goes to plan, the study is expected to be completed in Q2 2015 with results anticipated in Q3 2015. Vectura is providing technology and expertise in delivery of the active product.

2 PHASE II

VR096 (Janssen) Anti-inflammatory Asthma/COPD (Global)

Global development and licence agreement with Janssen Biotech Inc. for the exclusive development of novel anti-inflammatory therapies for the treatment of asthma/COPD. Initial focus is on the development of a Phase II candidate with the possibility to include additional clinical-stage candidates.

Deal will leverage Vectura's expertise and proprietary dry powder inhaler technologies for the development of inhaled therapeutics. Vectura will apply its delivery technologies to develop Janssen's pulmonary products into late-stage clinical development and commercialisation.

Janssen will lead the clinical development programmes, with Vectura taking responsibility for pharmaceutical development and manufacturing to support Phase II clinical trials and beyond.

VR647 Paediatric asthma SCIPE (Global)

The Safe Corticosteroid Inhalation in Paediatrics (SCIPE) programme aims to provide additional benefit to children who are persistent asthmatics.

Pre-IND meeting scheduled in June 2015 to agree US regulatory strategy.

- Objective is to retain current label/indication of budesonide, with a claim for reducing dosing time
- Evaluating incoming licensing requests to expedite value return

Branded

Generic

Partnered

Wholly owned

VR179 (Grifols) Cystic fibrosis (Global)

VR179 is a nebulised alpha-1-antitrypsin product, under investigation for the treatment of cystic fibrosis. The programme is partnered with the Spanish company Grifols.

VR736 (Ventaleon) Severe influenza (Global)

VR736 is an inhaled treatment for hospitalised patients with severe influenza and is being developed by Ventaleon, a joint venture between Vectura and an investment syndicate.

3 PHASE III

VR475 Severe Uncontrolled Adult Asthma FAVOLIR® (EU)

VR475 is an investigational product that comprises the inhaled corticosteroid budesonide, delivered with Vectura's smart nebuliser system, the AKITA® JET.

- A clinical study design has been agreed with the CHMP and clinical trial activities will start imminently, with filing anticipated in mid-2018
- Refocused to target the broader patient population shift from GINA step 5 OCS-dependent patients to GINA step 4 and 5 patients

VR876 (Undisclosed partner) Pulmonary hypertension (Europe)

This is being developed by an undisclosed partner as a nebulised version of a currently marketed drug for the treatment of pulmonary arterial hypertension (PAH). It uses Vectura's smart nebuliser technology to improve the patient acceptance of the product.

FILED

NVA237 (Novartis) COPD (US)

Novartis submitted the NDA for NVA237 to the FDA in the US in the fourth quarter of 2014 for an indication in COPD. In the first week of March 2015, this filing was accepted by the FDA, triggering a milestone payment to Vectura of $7.5m. Novartis expects US FDA action in Q4 2015.

Approved in EU and ROW as Seebri® Breezhaler®, see page 27.

QVA149 (Novartis) COPD (US)

Novartis submitted the NDA for QVA149 to the FDA in the US in the fourth quarter of 2014 for an indication in COPD. In the first week of March 2015, this filing was accepted by the FDA, triggering a milestone payment to Vectura of $12.5m. Novartis expects US FDA action in Q4 2015.

Approved in EU and ROW as Ultibro® Breezhaler®, see page 27.

GENERICS

VR315 (Undisclosed partner) Asthma and COPD (US)

VR315 is an inhaled combination therapy for asthma and COPD. 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.

- Vectura will receive a royalty from sales of VR315 in the US
- Vectura will receive a further $26m upon achievement of future pre-determined development milestones
- During 2014/15, Vectura received two additional milestones, each of $1.5m, as a result of further progress with VR315 in the US

VR506 (Undisclosed partner) Asthma (US)

VR506 is an inhaled corticosteroid for the treatment of asthma, which entered clinical development in 2011. In June 2014, Vectura signed a partnership agreement in the US. The licence agreement is with Vectura's existing, undisclosed US partner for VR315.

- Under the terms of this agreement, Vectura's partner is responsible for the commercialisation and manufacture of the product together with clinical development
- Vectura has received an initial payment of $4m and will receive up to $8m upon achievement of predetermined milestones. In addition, Vectura will receive a royalty from all VR506 US sales

VR632 (Sandoz) Asthma and COPD (EU)

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.

ENABLING THE DEVELOPMENT AND DELIVERY OF VALUE-ADDING PRODUCTS

Vectura has a wide range of patent-protected technology platforms, used to support the development and delivery of our own, value-adding products. We also offer licences to our technologies, generating significant revenues for Vectura.

The development of drugs for inhalation is complex and requires specialist processes and know-how. Companies across the world are keen to harness our expertise and technology for their own inhalation programmes.

Dry Powder Formulation technologies

Vectura has a long history and successful track record in the development of novel formulations. These novel formulation approaches together with extensive know-how have been applied to a broad range of Dry Powder Inhaler (DPI) products, including both generic and branded/innovative products.

Vectura's expertise enables us to achieve performance aligned with product delivery. For a generic product this will mean developing a formulation/device combination with performance to match the reference branded product both in laboratory testing and in the clinic. For a branded/innovative product the goal is to maximise performance as befits the target airways disease and mechanism of action of the drug. Vectura not only has extensive experience in the development of lactose blend based formulations for small molecule drugs but also in the development of dry powder formulations of biologics.

Formulation technologies for small molecule DPIs

Vectura has deep experience and a broad palette of IP that it can apply to developing state-of-the-art DPI formulations for small molecules. These technologies such as PowderHale® and PowderMax make use of Force Control Agent (FCA) technology. The FCA is a substance incorporated into the formulation to enhance various aspects of performance.

With PowderMax, the approach is optimised to selectively place the FCA where it will provide the most benefit. The technology is used across a range of Vectura's long established and newer partnerships.

Formulation technologies for inhaled biologics

Vectura has a long history of creating novel particle-engineered DPI formulations of biologics both for inhaled and other product applications and has developed significant know-how and a broad portfolio of patents in this field. Vectura uses spray drying to produce room-temperature-stable formulations that can be filled into blisters and readily aerosolised using one of Vectura's proprietary devices.

The combination of Vectura's IP in particle engineering, its ability to apply that IP to a product programme and then scale up and industrialise the manufacturing process, we refer to as our ParticleMAX technologies and capability. This is currently being applied to an inhaled biologic being co-developed with our partner UCB.

Pharmaceutical development and GMP manufacturing capability

Vectura is able to apply these technologies to product development programmes and through all stages of pharmaceutical and product development including pivotal clinical trials and technical transfer to commercial production. Vectura has state of the art development and Good Manufacturing Practice (GMP) facilities in Chippenham, UK, serving our requirements in both small molecule and biologic product space. This enables us to produce supplies for late-phase clinical trials using equipment that is entirely representative of that which would be used at the final commercial manufacturing site. This product development capability is supported by an extensive analytical capability generating the high quality data that is essential to the decision making required in product development.

Device technologies

Dry powder inhalers

Vectura's range of pre-metered foil blister DPIs has been developed to meet patients' needs in inhalation therapy for asthma and COPD. The devices are low cost and easy to use, yet they meet challenging technical and regulatory requirements, as demonstrated by ongoing approvals of Sandoz's AirFluSal® Forspiro®. Forspiro® is the name Sandoz gave to Vectura's GyroHaler® device. This device also gained a Red Dot design award in 2011. The core technology and IP used in GyroHaler® has also been incorporated in a family of devices aimed at meeting future product development and partnering opportunities. These include lever-operated, open-inhale-close and single unit dose devices which provide a range of dose number, performance and user-interface options. The device platform was further validated by an agreement with Janssen Biotech Inc. to develop the technology for use with Janssen's pulmonary products.

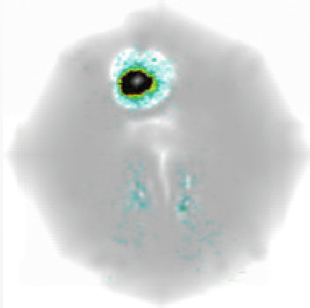
Smart nebuliser delivery systems

Vectura's smart nebuliser delivery systems provide targeted inhalation therapy for applications where precise and targeted delivery of a drug to the lungs is needed. To achieve this the nebuliser device creates a liquid aerosol and co-ordinates delivery after the patient has inhaled using the FAVORITE principle for precise delivery of drugs to the lungs.

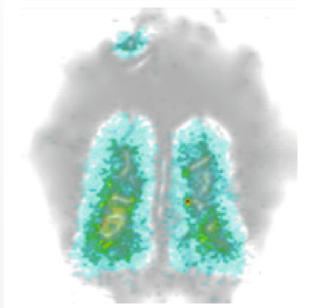
FAVORITE (Flow And Volume Regulated Inhalation TEchnology)

A patient's breathing pattern can alter the efficiency of drug delivery to different parts of the lung. Control of the inspiratory flow rate, the inspiratory volume of aerosol and the timing during the inspiration when the drug aerosol is delivered can materially affect how much drug gets to central or peripheral parts of the lungs. This is the basis of our proprietary, smart nebulisation-based technology known as FAVORITE.

This control is achieved through a modified nebuliser unit that delivers the nebulised aerosol tailored to the individual patient's breathing capacity. The increased efficiency of delivery means the drug is distributed more efficiently allowing targeted deposition in the lungs. Other benefits for the patient may also be derived from this approach, such as reduced treatment time.



Tidal Breathing
(typical short and abrupt inhalation pattern)



FAVORITE Inhalation
(slow and deep inhalation)

DPI DEVICES

GyroHaler®

Lever-operated

Open-inhale-close

Single unit dose

SMART NEBULISER SYSTEMS

AKITA® JET

The AKITA® JET nebuliser system uses proprietary technology to create positive ventilation and control the flow and volume tailored to the patient's breathing characteristics.

The system is used in conjunction with smart card technology that ensures full device exclusivity for specific drugs.

AKITA®² APIXNEB

The AKITA®² APIXNEB nebuliser is similar to the AKITA® device, but with a mesh-based nebuliser handset instead of a jet nebuliser. The mesh provides much higher nebulisation efficiency than a jet nebuliser, and can be used to nebulise molecules that cannot tolerate the higher shear forces of a jet nebuliser.

FOX™

FOX™ is a hand-held, self-contained, battery powered inhalation system that delivers nebulised liquid drugs with high performance using a vibrating mesh technology. The mesh-based aerosolisation engine is proprietary to Vectura. The FOX™ inhalation system also makes use of a flow sensing/controlling value system, is rechargeable and can be Bluetooth®-enabled.

In January 2015, Vectura received 510(k) clearance from the US Food and Drug Administration (FDA) for its FOX™ mobile smart nebuliser device. The FDA clearance shows Vectura's commitment to innovation, safety and quality and allows the FOX™ device to be marketed in the United States. In April 2014, the FOX™ gained a Red Dot Award for product design.

All of Vectura's smart nebuliser systems are now CE marked and 510(k) approved. A 510(k) is a pre-marketing submission made to the FDA to demonstrate that the device to be marketed is as safe, effective and substantially equivalent to an existing marketed device.

OUR VALUES PROMOTE AN INCLUSIVE WORKING ENVIRONMENT

"Our culture is fundamental to our success. The passion of our people is compelling evidence of the strength of our values, which encompass enthusiasm, creativity, teamwork, respect and trust. Our culture is typified through respectful, friendly and inclusive behaviours and practices.

Joanne Hombal
Director of Human Resources

We remain committed to ensuring that our business activities are conducted in a responsible manner for the benefit of our stakeholders. In achieving this objective, we focus our activities in four key areas which we believe are most relevant to our business: our people, our local communities, our environmental footprint and our governance. We believe that having empowered people, who understand their responsibilities, who display sound judgement and who act in an ethical way, is key to the ongoing success and development of Vectura.

Vectura is a member of the FTSE4Good index, a leading investment index for businesses that meet globally recognised corporate social responsibility standards.

Our people

Our values

Our values clearly articulate our expectations and our aspirations. We encourage and reinforce these values through our performance management process and the "People's Champion" award. The "People's Champion" is an annual award which allows our employees to recognise and reward those individuals who have acted as a behavioural role model, demonstrating our values in a way that has inspired and engaged their colleagues.

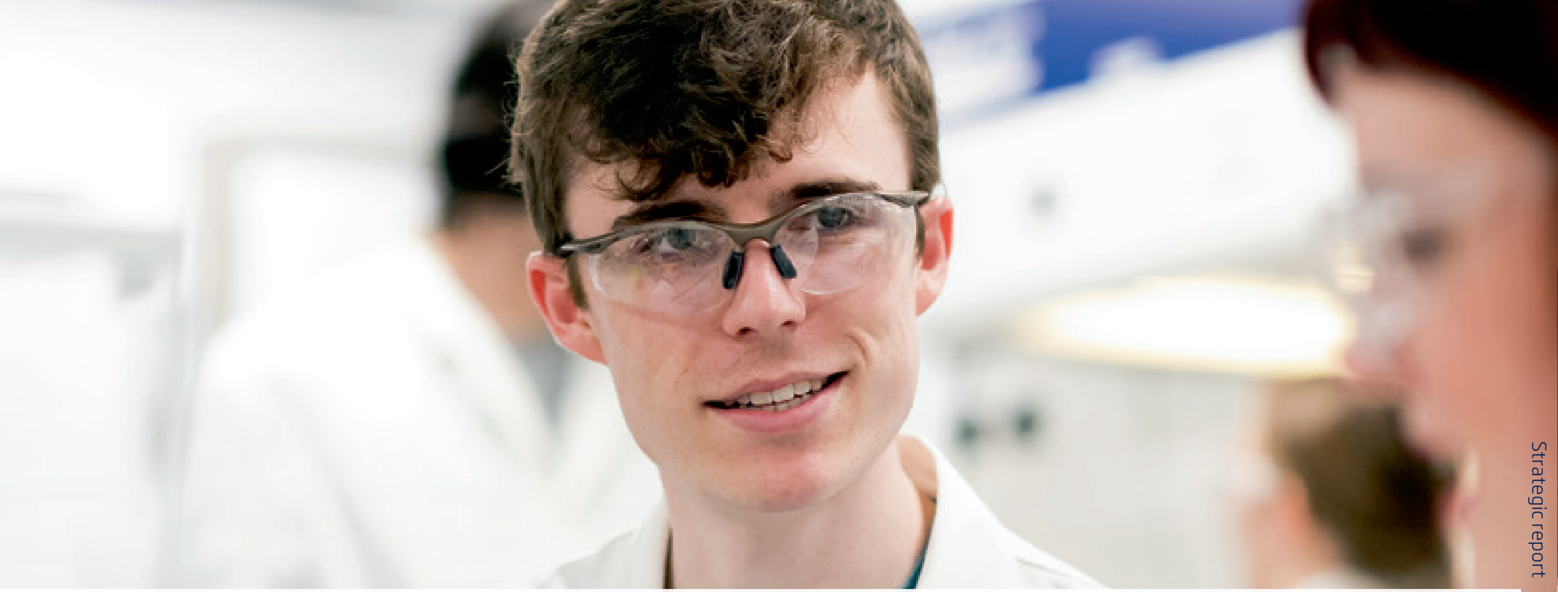
We believe that our values promote an inclusive working environment whereby individuals are rewarded for their individual and collective contributions to the business.

Our employment practices

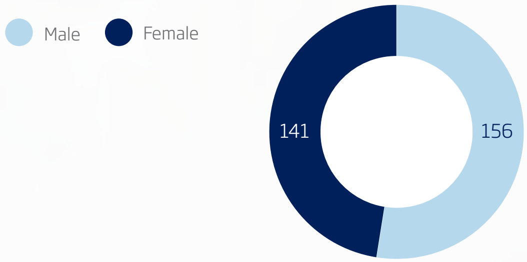
Vectura encourages diversity, throughout all levels of the organisation. We believe that individual success depends on ability, behaviour, performance and evidenced potential and we remain committed to offering career opportunities without discrimination. Our commitment to equal opportunities, diversity and non-discrimination is enshrined in our working practices and policies; we operate on the basis of mutual respect and we do not tolerate discrimination or harassment on any basis. Our diversity and equal opportunities policy covers all permanent and temporary employees, including Executive and Non-Executive Directors, job applicants, agency staff, associates, consultants and contractors.

We give full and fair consideration to every job application we receive. Vectura has not set formal diversity quotas or targets and all appointments, both internal and external, are ultimately made on the basis of merit. Where possible, we support part-time and flexible working with around 16% of our employees benefiting from some kind of flexible working practice.

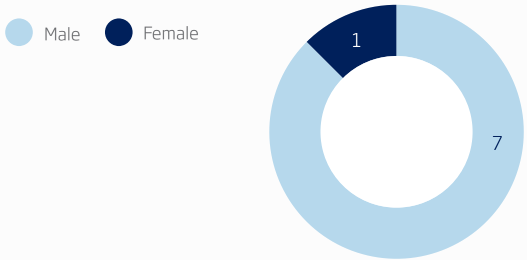
Chris Blackwell is the Board member responsible for overseeing human resources and non-discrimination issues.



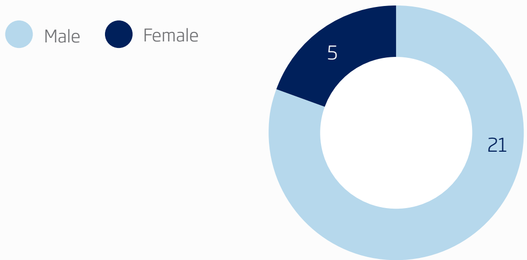
Overall gender breakdown
as at 31 March 2015



Vectura Group plc's Director gender split
as at 31 March 2015



Vectura senior managers
as at 31 March 2015



OUR VALUES:

- Achievement
- Enthusiasm
- Participation
- Innovation
- Trust and respect

Our employee communications

We value the opinions and experience of our people.

Effective and engaging communication is at the heart of our internal communication strategy. In an industry based on innovation and research and development, our employees are our biggest asset and it is therefore critical that we forge strong connections through timely and meaningful communication.

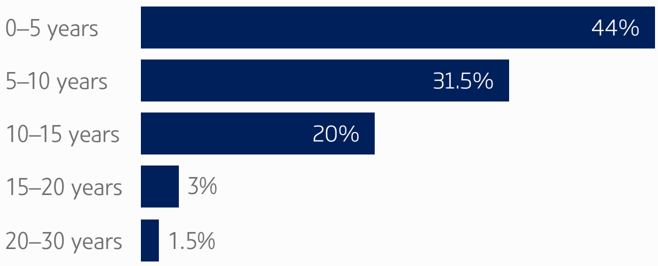
We have established Staff and Managers' Forums. These forums provide a mechanism by which all employees can raise issues that matter to them for discussion, to enable employee feedback and to facilitate the communication and dissemination of key information throughout the organisation.

We recognise that effective communication is a two-way, open exchange of ideas and opinions. Our employees host regular "Lunchtime Seminars", during which individuals can present on a topic that is relevant to their work or to the work of Vectura. These sessions can be accessed remotely by all staff, using video conferencing facilities, and they are designed to promote and enable peer learning. In addition, we promote the use of employee-led and facilitated "creative thinking" workshops; these sessions encourage shared problem solving, which we believe fosters an inclusive and innovative working environment.

The circulation of press announcements and internal newsletters, monthly all-staff Chief Executive videolink updates as well as quarterly individual site Chief Executive Q&A sessions keep employees informed of business developments and performance.

In the forthcoming year, we plan to implement biennial employee engagement surveys. The results of these surveys will be openly communicated and will form the basis for action plans which address any areas for improvement and build on our strengths.

We monitor our employee turnover on a monthly basis to identify any possible employee relations or motivational issues and to assist in our recruitment and resource planning. We are pleased to report that a significant percentage of our employees have five or more years' continuous service.



Our people continued

Developing and rewarding our people

Attracting and retaining skilled people with values aligned to our company ethos is critical for our business and we aim to develop and maintain a motivated and professional workforce. As such, we recognise the importance of investing in our people, ensuring that they are equipped to deliver in their current and future roles within the business. In addition to investment in general training and development, Vectura offers all employees the opportunity to apply for scholarship funding. The Meakin Scholarship provides substantial financial assistance to those who wish to pursue further self-development, largely in their own time. Any course that would significantly enhance an employee's skills whilst benefiting Vectura is considered.

Remuneration plays an important role in retaining and motivating our people. We seek to provide well-constructed and fair reward systems designed to incentivise superior performance and align the interests of our employees with those of our shareholders. Our remuneration packages are designed to be both fair and competitive and all remuneration packages include an element of variable remuneration in the form of an annual bonus. The annual bonus allows us to reward employees for achieving and exceeding challenging corporate and individual objectives. In addition to our remuneration packages, which include a pension entitlement, permanent health insurance and life assurance and private medical care, all employees are given the opportunity to participate in our all-employee share plans. For more details of our all-employee share plans, please refer to the Report on remuneration.

Our commitment to health and safety

Vectura considers health and safety to be a priority in its workplaces. We have an established Health and Safety Committee that reviews health and safety standards within the organisation. The Committee continually monitors and reviews health and safety practices to ensure that health and safety management procedures are robust and in line with industry best practice. Annual updates are provided to the Board for review and additional update reports are provided as required. Trevor Phillips is the Board member to whom responsibility for health and safety issues has been delegated.

Specialist ongoing training is provided to those individuals who are responsible for health and safety across the organisation. General health and safety training is delivered to all staff via in-house training sessions provided by our Health and Safety Manager and by e-learning courses.

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 (2014/15: none).

Our local communities

We consider that one of the most significant impacts we can have within our local communities is to continue to provide high-quality employment opportunities and to develop therapies to help patients with airways-related diseases.

In addition, we support the STEM (Science, Technology, Engineering and Mathematics) initiative, which is a major government programme whereby our employees actively help local schoolchildren to gain the understanding, capabilities and skills to flourish in a scientific environment such as ours.

We are proud to have a highly creative and active Social Committee, which initiates a calendar of social and charitable events each year. With a dedicated budget, this team is empowered to organise engaging and rewarding activities to raise money for local charities, as well as facilitating our support of nationwide charity campaigns such as Comic Relief. Wherever possible, company facilities are made available for these events.

Our environmental footprint

Due to the nature of its activities, Vectura considers that it has a low environmental impact. However, we remain committed to minimising the impact of our activities on the environment and we actively seek to make energy savings in a way that is beneficial for the environment and cost effective for the business. Andrew Oakley is the Board member to whom responsibility for environmental issues has been delegated.

Vectura's internal operational goals include objectives to reduce our environmental footprint by controlling the use of energy and materials. To help us achieve these objectives, a Green Action Team meets regularly and has responsibility to pursue initiatives for environmental sustainability and carbon reduction.

Green Action Team

Our Green Action Team is responsible for raising environmental awareness, driving good environmental behaviours and co-ordinating environmental initiatives across the organisation. The team regularly publishes articles on environmental matters on our staff intranet and it manages internal guidance for the use of heating and air conditioning. Each year, the team organises an annual "Green Week" to promote ongoing awareness of environmental matters amongst staff.

Our environmental policies

Our company environmental policy is modelled on ISO14001 standards, and all staff are required to read and comply with Vectura's green working policy. Induction procedures for new staff include sufficient information to ensure a high level of compliance with our environmental standards.

Our environmental initiatives

Vectura has adopted and maintains a number of specific environmental initiatives.

Energy efficiency

- 52 solar panels are installed at our Chippenham site which have generated over 26,500kwh of electricity since installation in November 2012.
- It is our policy that, when an existing light unit requires replacement, it is replaced with an LED light. The LED lights installed are up to four times more energy efficient than the traditional light units that they replace. The majority of the lighting at our Chippenham site is now LED.

- Passive infrared light sensors are installed in many general work areas. This ensures that lighting is not left on in work areas that are not currently in use.
- We continue our commitment to promoting "green IT". Where possible, we use virtual PCs that use c.20% of the electricity of a standard desktop PC and we employ virtual servers.

Waste management

Initiatives to effectively manage and reduce waste have been implemented throughout the organisation:

- We recycle all paper and cardboard waste, aluminium cans, plastics, printer toners/cartridges and redundant mobile telephone handsets.
- We operate a managed print solution to help control paper usage.
- We use registered waste disposal contractors and comply with all relevant waste legislation.

The Carbon Disclosure Project

Vectura voluntarily reports its environmental performance under the Carbon Disclosure Project (CDP). CDP plays an important 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 this year.

Greenhouse gas emissions

Vectura reports greenhouse gas emissions in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 ("the Regulations").

Greenhouse gas assessment parameters

Baseline year	FY13/14
Intensity ratio[1]	GHG by gross building area[2]

(1) In order to express total annual emissions in relation to a quantifiable factor associated with Vectura's activities, gross building area has been used as an intensity ratio.

(2) Due to the nature of Vectura's business, a large amount of energy is consumed in maintaining air quality in the laboratories and therefore choosing gross building area as an intensity ratio gives the fairest reflection of performance.

Emissions data is reported using a financial control approach to define our reporting boundary, which meets the requirements of the Regulations in respect of those emissions for which we are responsible. The information is presented for a twelve-month period. Emissions have been measured for all sites.

The amounts shown below for total FY 14/15 Scope 1 and Scope 2 emissions are those required to be reported under the Regulations.

Greenhouse gas emission by source 2014/15[1]	2014/15	2013/14
Scope 1	**215**	142
Scope 2	**1,506**	1,272
Total emissions (Scope 1 and 2)	**1,721**	1,414
Emissions reported (tonnes of CO_2 per sq ft)[2]	**0.02**	0.02

(1) GHG emissions reported in metric tonnes of carbon dioxide equivalents. Emissions factors were sourced from the UK Defra database.

(2) Gas and electricity usage information has been obtained from purchase invoices and verified by reference to meter readings. Vehicle fuel usage is based upon recorded mileage.

Our governance

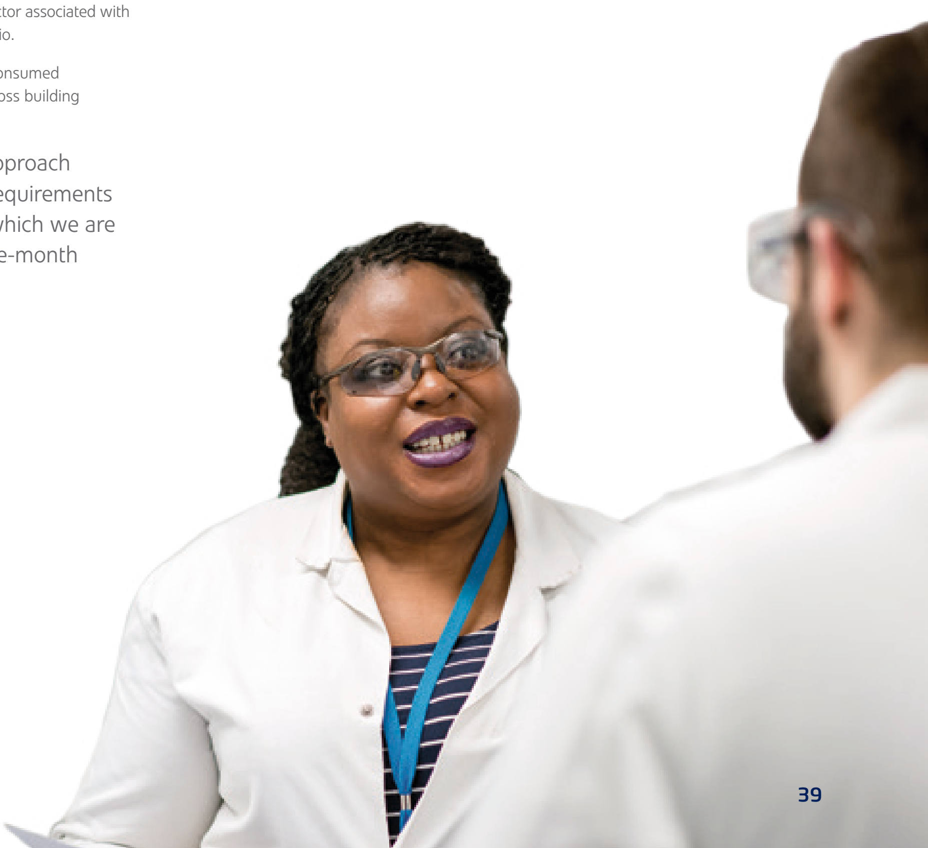
Vectura's corporate governance structure is set out on page 47 of this Annual Report.

Our ethical and social policies

Vectura'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, Vectura seeks to conduct its activities generally in accordance with good business ethics.

We have adopted a clear anti-bribery policy, which has been communicated 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.

We do not believe that human rights issues present a significant issue for Vectura, but we are committed to protecting the human rights of our employees and the people who come into contact with our business.



SIGNIFICANT PROGRESS FOR FUTURE GROWTH

> FY 14/15 has been a transformational year for Vectura. We are pleased to report a 59% increase in revenues to £58.0m, driven by significant organic growth in royalty streams derived from recently launched products, augmented by significant development milestones in respect of partnered programmes. Revenue growth of £21.5m and an increase of £10.5m in operating expenditures as we continue to invest in growth, translates to an £11.0m increase in EBITDA[1] to £16.2m.

Financial Highlights

FY 14/15 has been a transformational year for Vectura. We are pleased to report a 59% increase in revenues to £58.0m, driven by significant organic growth in royalty streams derived from recently launched products, augmented by significant development milestones in respect of partnered programmes.

Revenue growth of £21.5m and an increase of £10.5m in operating expenditures as we continue to invest in growth, translates to an £11.0m increase in EBITDA[1] to £16.2m. Research and development expenditure for the financial year was below our guidance range as the result of the timing of certain expenditure commitments relative to our financial year end. The phasing of this spend will consequently impact our research and development investment for FY 15/16 and, as a result, we anticipate that research and development expenditure for the forthcoming year will be at the higher end of our stated guidance range.

Revenue

Vectura categorises revenues into five streams: royalties, product licensing, technology licensing, development services and device sales. In FY 14/15, we have seen revenue growth across the board in each of our revenue streams.

Royalties

Royalty revenue of £25.2m has increased by 55% year-on-year; this increase has been driven by a sustained increase in underlying sales of recently launched products.

Net sales of Seebri® Breezhaler®, as reported by Novartis, have grown by 87% to $153m for the twelve-month period ended 31 March 2015. For Ultibro® Breezhaler®, which was launched in calendar Q4 2013, Novartis reported net sales of $156m for the financial year under review. In light of the strong growth in net sales, royalty income received from Novartis for these two products has increased to £8.5m during the year (2013/14: £2.7m).

In addition, we benefited from a full year of royalty revenue from GlaxoSmithKline (GSK) for sales of Relvar®/Breo® Ellipta® and Anoro® Ellipta®, and we received our first royalties on sales of Incruse® Ellipta®. GSK reported net sales of £135m for sales of these three products, upon which Vectura earned a royalty of £3.8m (2013/14: £0.3m). Under the terms of our agreement with GSK, the maximum annual royalties payable to Vectura for sales of these products are £13m.

Other royalty revenue is mainly derived from the two products licensed to Baxter. Underlying sales of ADVATE® have continued to advance by 6% during the year under review on a constant currency basis and accordingly royalty revenue earned from Baxter from sales of ADVATE® has increased to £11.8m. Adept® contributed royalty revenues of £0.4m during the year.

Product Licensing

Product licensing of £19.8m has increased by 49% year-on-year. FY 14/15 has been a year of excellent progress across new and existing partnerships, marked by a number of milestone events which are linked to significant revenue streams to Vectura over the coming years.

June 2014	We announced that we had licensed the US rights to VR506 to our existing partner for VR315 US (undisclosed). Vectura received an initial milestone of £2.4m ($4m) upon signing of this agreement, and is eligible to receive up to a further $8m upon achievement of certain predetermined milestones. In addition, we recognised a milestone of £0.9m ($1.5m), being the first of two development milestones earned during the year in respect of our partnered VR315 US programme.
October 2014	Approval of AirFluSal® Forspiro® in Portugal triggered a milestone receipt of £0.9m (€1.5m) from our partner Sandoz.
November 2014	Approval of AirFluSal® Forspiro® in the Czech Republic triggered another milestone receipt of £0.9m (€1.5m) from Sandoz. A second development milestone of £0.9m ($1.5m) was recognised in respect of our partnership of VR315 US. Under the terms of this agreement, Vectura will receive up to a further $26m upon achievement of future predetermined development milestones. In addition, Vectura will receive a royalty on all sales of VR315 in the US.
March 2015	Our partner, Novartis, received acceptance by the FDA for their NDA submissions for QVA149 and NVA237. Upon confirmation of this acceptance, Vectura earned milestone revenues of £8.2m ($12.5m) and £4.9m ($7.5m) respectively.

Technology Licensing

Technology licensing revenues of £6.6m (2013/14: £4.3m) primarily relates to two significant milestones achieved during the year; £3.3m ($5m) relates to an upfront milestone recognised upon entering into a global development and licensing agreement with Janssen Biotech, Inc. for the exclusive development of novel anti-inflammatory therapies for the treatment of asthma/COPD and £2.0m relates to the final milestone defined in a non-exclusive licence with GSK. As explained in the royalties section of this report, Vectura now earns royalties on the commercial sale of Relvar®/Breo® Ellipta®, Anoro® Ellipta®, and Incruse® Ellipta®.

Development Services

Development service revenues of £3.9m were recognised during FY 14/15. This increase is the result of higher demand for these specialist services from Vectura's existing partners as well as a positive contribution from new partnerships and those partnerships acquired as part of the Activaero acquisition.

Device Sales

Device sales of £2.5m have increased significantly compared to the prior year (2013/14: £0.9m) due the launch of AirFluSal® Forspiro®, which uses Vectura's GyroHaler® device, in a number of European and Rest of the World territories.

Research and Development Expenses

Total investment in research and development (R&D) was £36.1m, representing a 29% increase on the previous year (2013/14: £28m).

During the year, we completed a portfolio review which has allowed us to prioritise our portfolio and align our resources to ensure that our investment in R&D is measured, controlled and supportive of our strategic objectives. Accordingly, we have begun to exploit two of our newly acquired assets namely VR475 EU and VR876 and total external expenditure on these programmes was £5.2m during the year. We have continued to develop VR942 in collaboration with our partner UCB and external expenditure on this programme has increased compared to the prior year. These increases were partially offset by a decrease in external project spend associated with VR315 in the US as we have now effectively come to the conclusion of our commitments on this project.

R&D spend in FY 14/15 was lower than our guidance due to the timing of certain expenditure commitments relative to our year end. We remain committed to managing our research and development within a predefined range and we anticipate that our R&D expenditure will be at the higher end of this range in the forthcoming year, as we undertake clinical activities in respect of VR475 EU. Furthermore, during FY 15/16, we will incur non-recurring expenditure as we transfer activities from our Gemünden site to our other sites in the UK and Germany. Overall the closure of the site will result in cost savings, as from FY 16/17, in both R&D expenditure and other administrative expenses.

Other Administrative Expenses

Other administrative expenses have increased from £3.4m to £4.5m, with the majority of this increase attributed to the acquisition of Activaero.

Taxation

The total taxation credit of £9.9m comprises R&D tax credits of £3.1m and non-cash taxation credits of £6.8m relating to movement in deferred taxation liabilities and assets within the Group.

Goodwill

As outlined in the FY 13/14 annual report, given the proximity of the Activaero acquisition to Vectura's year end, the acquisition accounting reported as at 31 March 2014 was deemed to be provisional. In accordance with IFRS 3 – Business Combinations, the fair values assigned to the identifiable assets, liabilities and contingent liabilities have been revised in the period to 18 March 2015 to reflect new information about facts and circumstances that existed as of the acquisition date.

During the year, an additional payment of €0.6m was made to the former shareholders of Activaero. This additional payment was in consideration for working capital items that were acquired during the acquisition. Accordingly, the goodwill associated with the acquisition has increased from €9.3m to €9.9m.

Revenue	EBITDA[1]	Basic EPS	Cash and cash equivalents
£58.0m	£16.2m	0.9p	£90.0m
+59%	+212%	2013/14: (0.7p loss)	+10%
2013/14: £36.5m	2013/14: £5.2m		2013/14: £81.7m

Goodwill continued
In accordance with International Financial Reporting Standard 3 "Business Combinations", the revised amounts have been recognised as though they were the amounts known at the acquisition date and so comparative information for the prior year has been restated. The acquisition accounting is now considered to be final.

With the exception of the deferred consideration payment to be made in August 2015, which was reflected in the provisional acquisition accounting, no additional payments are due to be made in respect of this acquisition.

Intangible Assets
Intangible assets of £104.3m include assets of £5.1m relating to the Innovata acquisition and assets of £99.2m relating to the Activaero acquisition.

The intangible assets of £5.1m (2014: £10.7m) associated with the Innovata acquisition have been amortised by £5.6m (2013/14: £6.4m) during the year. These assets will be fully written down over the forthcoming year.

The carrying value of the intangible assets associated with the acquisition of Activaero is £99.2m (2014: £128.2m), at the prevailing exchange rate at the balance sheet date. The assets will continue to be amortised over their remaining useful life.

Translation Reserve
The assets and liabilities, including goodwill, acquired from Activaero are denominated in euros and therefore, in accordance with accounting standards, the Group has recognised a net foreign exchange difference of £11.4m within reserves as a result of the movement in the exchange rate between 31 March 2014 and 31 March 2015. In future periods, the movement in this reserve will be dependent upon the £/€ exchange rate at the relevant balance sheet dates.

Property, Plant and Equipment
Vectura has invested £1.4m in its inhaled product manufacturing capabilities during the year (2014: £2.5m). Capital investment is expected to increase in FY 15/16 as we transfer manufacturing activities previously performed at our Gemünden site to our other sites in Germany and the UK.

Deferred Income
Deferred income relates to milestones received in cash but not yet recognised as revenue. Of the £1.7m on the balance sheet at 31 March 2015 (2014: £1.8m), £0.2m will be recognised as revenue in 2015/16 and £1.5m, which relates to the VR315 (AirFluSal® Forspiro®) RoW deal with Sandoz, will be recognised as revenue in later periods.

Deferred Consideration
The deferred consideration of £25.6m relates to the €35m payment in cash which is due to be paid to the former Activaero shareholders in August 2015 as part of the acquisition consideration.

Foreign Exchange Rates
The following foreign exchange rates were used during the year:

	2014/15	2013/14
Average rates		
£/$	**1.61**	1.59
£/€	**1.27**	1.19
Period end rates		
£/$	**1.48**	1.67
£/€	**1.37**	1.21

Cash Flow
Vectura continues to maintain a strong cash position with cash and cash equivalents at 31 March 2015 of £90.0m (2014: £81.7m). Vectura achieved a net cash inflow of £8.0m from operating activities (2014: £0.7m outflow), which is reflective of growing and sustainable cash receipts from royalty revenue and a focus on cost control throughout the business. The negative movement in trade and other receivables is largely due to the timing of the $20m in milestones earned from Novartis following FDA acceptance of the NDA filings for QVA129 and NVA237 in the US. This amount has now been received during FY 15/16.

By order of the Board,

Andrew J Oakley
Director
19 May 2015

The Strategic report, which comprises pages 1 to 42, has been approved and signed on behalf of the Board.

Dr Chris Blackwell
Chief Executive
19 May 2015

1 Earnings before investment income, finance (costs)/gains, tax, depreciation, amortisation, share based compensation and adjusted for non-recurring expenditure items.

INTRODUCTION FROM THE CHAIRMAN

Dear shareholder

On behalf of the Board, I am pleased to present the Corporate governance report for the year ended 31 March 2015.

As a Board, we have a collective responsibility to shareholders for the sustainable long-term success of Vectura. We believe that a strong and balanced corporate governance framework is the foundation of a successful organisation. We adhere to the principles-based approach set out in the UK Corporate Governance Code ("the Code"), whilst recognising that our governance structure must be appropriately tailored to suit the needs of our business.

Our corporate governance framework is built with a focus upon effective leadership, clear communication, risk management and a commitment to a culture of openness, honesty and integrity. This framework is embedded within the culture of our organisation through our core values and our underlying policies, procedures and management processes.

Complying with the UK Corporate Governance Code ("the Code")

I am pleased to report that throughout the financial year, and to the date of this report, Vectura has fully complied with the principles and provisions set out in the Code. We will continue to adhere to the Code and we will monitor developments and implement improvements in our governance framework during the year ahead.

Diversity and leadership

The Board recognises the importance of diversity, in its broadest sense, at all levels within the organisation. When making appointments to the Board, we have due regard for gender diversity; however, all appointments are ultimately made on merit.

There has been one significant change to Board membership during the year. On 1 January 2015, Andrew J Oakley was appointed as Chief Financial Officer and Company Secretary. Andrew is a highly regarded and well established Chief Financial Officer and he brings a wealth of market knowledge and considerable transactional experience. We believe that Andrew is well positioned to help Vectura achieve its strategic objectives. The Board would like to thank his predecessor, Paul Oliver, for his considerable contribution to Vectura during his time with the Company.

During the year, Chris Blackwell also announced his intention to step down as Chief Executive with effect from 1 July 2015. The Nomination Committee, with the support of independent external advisors, are leading the process to recruit Chris' successor. Succession planning as well as overall Board balance and composition continue to be key areas of focus for the Nomination Committee.

In this regard, I am pleased to report that Dr Per-Olof Andersson was appointed to the Board as an independent Non-Executive Director with effect from 1 April 2015. Per-Olof brings a strong and impressive track record to Vectura and we believe he will be of great benefit to the Company as we continue our transformation into a specialty pharmaceutical business.

Evaluating Board effectiveness

The annual Board performance evaluation was conducted internally during the year and, following this process, it was concluded that the individual members of the Board continue to be effective in their roles and that they have the necessary skills and experience to fulfil their duties. Details of the evaluation process and the outcome can be found on page 50 of this report.

Communication with shareholders

The Board maintains its commitment to maintaining an open dialogue with our shareholders. As ever, all of Vectura's Directors will be in attendance at our Annual General Meeting (AGM) on 24 September 2015 and will be available to meet and address any questions from our investors.

Bruno Angelici
Chairman
19 May 2015

1. Bruno Angelici

R N

MBA

Role
Non-Executive Chairman

Tenure
Bruno Angelici, 67, was appointed to the Board of Vectura Group on 1 December 2013 and became Non-Executive Chairman on 1 February 2014.

Experience
Bruno is a French national with an MBA (Kellogg School of Management) and business and law degrees from Reims.

Bruno's career includes senior management roles in pharmaceutical and medical device companies. Bruno retired from AstraZeneca in 2010 as Executive Vice President International after a 20-year career. He was responsible for Europe, Japan, Asia Pacific, Latin America, Middle East and Africa having originally joined as President of ICI Pharmaceuticals France. Prior to this, he was at Baxter, a US-based global supplier of medical devices. He has extensive international experience, including in the US, and brings a deep understanding to the Company of the medical device and pharmaceutical industries.

External appointments
Bruno is a Non-Executive Director of Smiths Group plc, a FTSE 100 technology group, and Novo Nordisk A/S, a global healthcare company and world leader in diabetes care. He is also a member of the Global Advisory Board of Takeda Pharmaceutical Company Ltd Japan, the largest pharmaceutical company in Asia, and a member of the Supervisory Board of Wolters Kluwer NV, a global information services and publishing company.

2. Chris Blackwell

BSc, PhD

Role
Chief Executive and Executive Director

Tenure
Dr Chris Blackwell, 53, was appointed Chief Executive of Vectura in February 2004. He joined the Group in 2002 as Chief Operations Officer and Executive Director.

Experience
Having graduated with a first class honours degree in applied biology, Chris received a PhD for his work at the University of Bath. Throughout both degrees, Chris was sponsored by ICI Pharmaceuticals (now AstraZeneca), and worked in the fields of respiratory and cardiovascular diseases.

Prior to Vectura, Chris was Executive Director of Drug Development at Scotia Pharmaceuticals Ltd. He was previously at Hoffmann-La Roche, where he was UK Director, Global Project Management, and before that, at Glaxo Group Research Ltd., in the Department of Clinical Pharmacology.

3. Andrew Oakley

BEcon, MBA, ACA

Role
Chief Financial Officer and Company Secretary

Tenure
Andrew Oakley, 52, was appointed Chief Financial Officer and Company Secretary of Vectura in January 2015.

Experience
Andrew holds a Bachelor of Economics Degree from Macquarie University and an MBA from London Business School and has been a Member of the Australian Institute of Chartered Accountants since 1987.

Prior to Vectura, Andrew was the Chief Financial Officer at the Swiss bio-pharmaceutical companies Actelion Ltd and Novimmune SA. Prior to joining Actelion, he served in a senior finance capacity for the global holding companies of Accenture, having previously held executive positions in major multinational building material companies and has also spent several years as an equity analyst with banks in Australia, UK and the US.

4. Trevor Phillips

BSc, PhD, MBA

Role
Chief Operations Officer and President of US Operations

Tenure
Dr Trevor Phillips, 54, joined the Board of Vectura in June 2012. He was appointed Chief Operations Officer in July 2011, having joined the Company in January 2010 as President of US Operations.

Experience
Trevor has a BSc in microbiology from the University of Reading and a PhD in microbial biochemistry from the University of Wales. He was awarded an MBA from Henley Management College in 1997.

Prior to Vectura, Trevor 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.

5. John Brown

R N A

CBE, PhD, MBA, FRSE

Role
Non-Executive Director
and Senior Independent Director

Tenure
Dr John Brown, 60, joined the Board of Vectura in 2004.

Experience
John 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.

External appointments
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.

6. Susan Foden

R N A

MA, DPhil

Role
Non-Executive Director

Tenure
Dr Susan Foden, 62, joined the Board of Vectura in January 2007.

Experience
Susan has held various 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.

External appointments
Susan holds a number of Non-Executive Directorships with both public and private companies in the biotech and healthcare field, including BTG plc, Source Bioscience plc, Cizzle Biotechnology Ltd, BerGenBio AS and Evgen Ltd.

7. Neil Warner

R N A

BA, FCA, MCT

Role
Non-Executive Director

Tenure
Neil Warner, 62, joined the Board of Vectura in February 2011.

Experience
Neil has significant financial and managerial experience in multinational businesses. He was Finance Director at Chloride Group plc, a position he held for 14 years until the company's 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 and was a Non-Executive Director of Dechra Pharmaceuticals plc, where he was the Senior Independent Director and Chair of the Audit Committee. Neil has an economics degree from the University of Leeds and is a Fellow of the Institute of Chartered Accountants.

External appointments
Neil is the Non-Executive Chairman of Enteq Upstream plc, a specialist reach and recovery products and technologies provider to the upstream oil and gas services market.

8. Per-Olof Andersson

MD, PhD

Role
Non-Executive Director

Tenure
Dr Per-Olof Andersson, 62, joined the Board of Vectura on 1 April 2015.

Experience
Per-Olof was born in Sweden and studied medicine at Lund University. Per-Olof has an international R&D track record within the pharmaceuticals, bio-pharmaceuticals and speciality pharmaceutical industry and considerable experience in respiratory therapeutic development. In 2011, Per-Olof retired from Almirall where he was Executive Director for R&D and Member of the Board of Directors. Prior to joining Almirall in 2006, Per-Olof had a distinguished international career at Pharmacia and Pfizer over a period of nearly 20 years. Since 2011, Per-Olof has been an independent consultant advising biotech and pharmaceutical companies and in particular working with Almirall.

Committee membership
- R Remuneration Committee
- N Nomination Committee
- A Audit Committee
- Committee chairman

1. Karl Keegan
BSc, MPhil, PhD, MSc

Role
Chief Corporate Development Officer

Tenure
Dr Karl Keegan, 48, joined Vectura in September 2012.

Experience
Karl 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 Dutch biotech company listed on Euronext.

2. Roger Heerman
BS, MBA

Role
Chief Commercial Officer

Tenure
Roger Heerman, 42, joined Vectura in 2010 and was appointed Senior Vice President, Commercial Strategy in 2013.

Experience
Prior to joining Vectura, Roger gained extensive US and international commercialisation experience in a number of senior roles including VP Sales and Marketing of the US publicly held company Critical Therapeutics, Inc. and as VP, Director of Client Service at McK Healthcare.

At Critical Therapeutics, he was responsible for the build-out of the commercial infrastructure and the launch of ZYFLO CR in the US. At McK Healthcare, Roger supported the launch and repositioning efforts of numerous US and global brands including UCB's Neupro® for Parkinson's disease and IROKO's Aggrastat® for acute coronary syndrome.

Roger began his career in the pharmaceutical industry as a sales representative in the respiratory division at GlaxoSmithKline. He received his BS from Babson College and his MBA from the F.W. Olin School of Business at Babson College.

3. Joanne Hombal
BSc, PD-HRM

Role
Human Resources Director

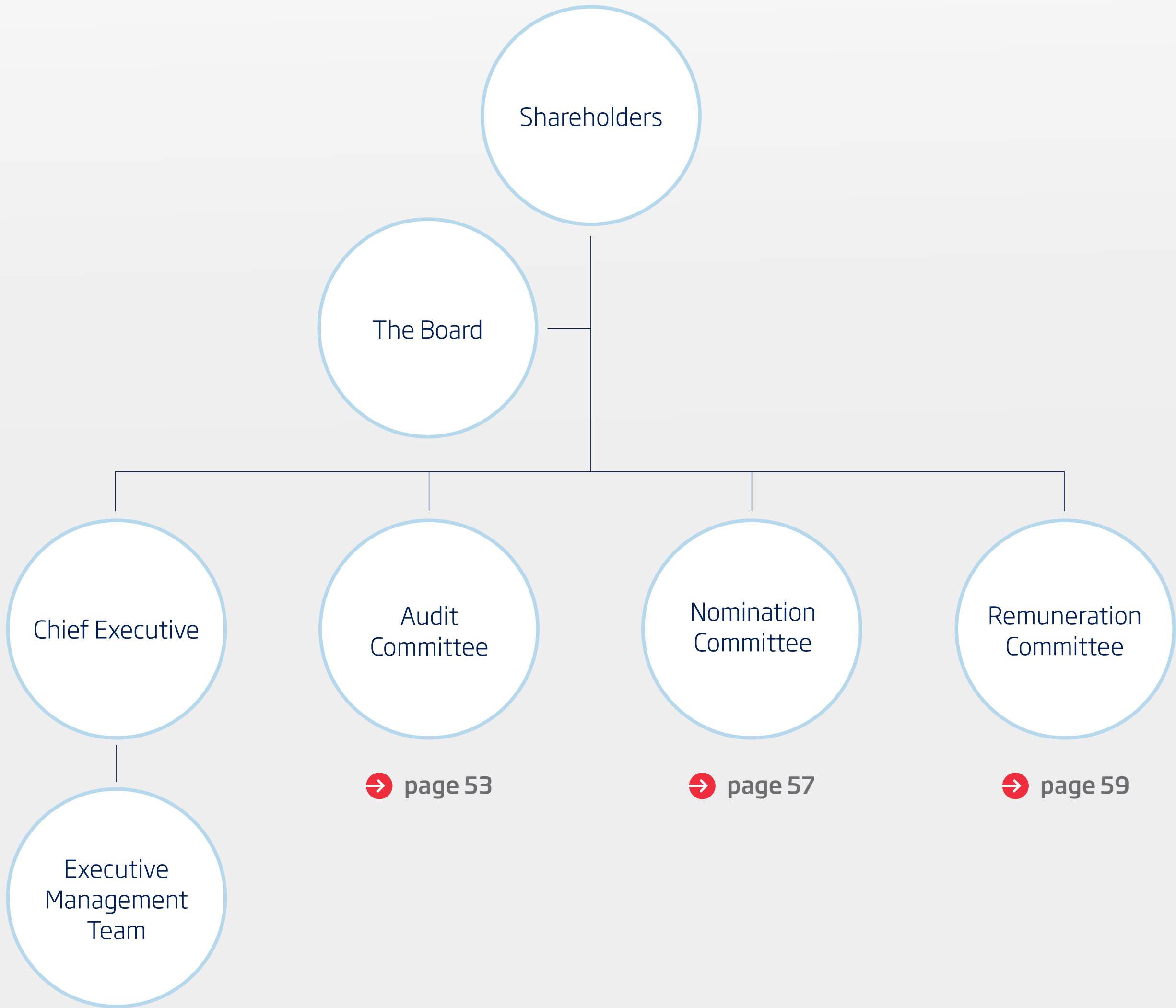
Tenure
Joanne Hombal, 41, joined Vectura in January 2015.

Experience
Joanne has a BSc in psychology from the University of Birmingham, a postgraduate diploma in human resource management from the University of Glamorgan and is a Chartered Member of the Chartered Institute of Personnel and Development.

Before joining Vectura, Joanne was Vice President HR at Invensys Rail with responsibility for setting the people strategy for Northern Europe. She has also held senior HR roles at AXA Life and led a number of organisational development and transformation initiatives.

BOARD EFFECTIVENESS AND COMPOSITION

Management and corporate structure



Statement of compliance with the UK Corporate Governance Code
The UK Corporate Governance Code ("the Code") sets out the standards of good practice in relation to corporate governance to be applied by companies with a listing on the London Stock Exchange. A copy of the Code can be found on the Financial Reporting Council's website (www.frc.org.uk).

The principles and provisions of the Code cover five areas: leadership of the Company, effectiveness of the Board, accountability of the Board, remuneration and relations with shareholders. The Board confirms that Vectura has fully complied with the principles and provisions set out in the Code throughout the year under review.

Leadership

The Board of Directors

The Board is collectively responsible for the leadership, direction and sustainable long-term success of Vectura.

A well-balanced Board is vital to ensure that there is appropriate rigour and challenge in the decision making process. Vectura's Board is comprised of Directors from various backgrounds who have a breadth of professional and sector skills and experience.

During the year ended 31 March 2015, Vectura's Board, headed by the Chairman, was comprised of three Executive Directors and three Non-Executive Directors who were determined by the Board to be independent. The Executive Directors are responsible for Vectura's business operations whereas the Non-Executive Directors are responsible for bringing independent and objective judgement to Board deliberations and decisions.

Chairman	Bruno Angelici
Board members (Executive)	Chris Blackwell Trevor Phillips Andrew Oakley (from 1 January 2015) Paul Oliver (until 1 January 2015)
Board members (Non-Executive)	John Brown Susan Foden Neil Warner

With effect from 1 April 2015, Dr Per-Olof Andersson was appointed to the Board as an independent Non-Executive Director.

Brief biographies of current Board members are set out on pages 44 to 45.

Key responsibilities

Whilst the Board delegates certain of its responsibilities to Board committees, there are certain matters that are considered to be so important to the long-term success of Vectura that they are reserved for Board decision and approval. Such matters include:

- approving business and strategic plans;
- approving budgets and monitoring performance against them;
- approving significant acquisitions, disposals and capital expenditure;
- approving Vectura's Interim Report and Annual Report and Accounts;
- management of Vectura's risk profile;
- executive appointments and remuneration; and
- monitoring Vectura's corporate governance arrangements.

> A well-balanced Board is vital to ensure that there is appropriate rigour and challenge in the decision making process.

Board and committee meetings

The Board holds formal meetings on a bimonthly basis, with further meetings being called when circumstances or urgent business dictate. Additional meetings may be held via conference call.

The Board met ten times during the year. Details of Directors' attendance at these meetings are set out below. In the event that a Director is unavailable to attend a Board meeting, or to attend by telephone link, he or she will communicate their views on items to be raised at the meeting through the Chairman.

	The Board	Audit Committee	Nomination Committee	Remuneration Committee
	Meetings attended/(held) whilst the Director was a Board member	Meetings attended/ (held)	Meetings attended/ (held)	Meetings attended/ (held)
Bruno Angelici (Chair)	10/(10)	n/a	3/(3)	4/(4)
Chris Blackwell	10/(10)	n/a	n/a	n/a
Trevor Phillips	10/(10)	n/a	n/a	n/a
Paul Oliver	7/(8)	n/a	n/a	n/a
Andrew Oakley	2/(2)	n/a	n/a	n/a
John Brown	10/(10)	3/(3)	3/(3)	3/(4)
Neil Warner	9/(10)	3/(3)	3/(3)	4/(4)
Susan Foden	9/(10)	2/(3)	3/(3)	4/(4)

Board agenda
The Board's main activities during the year are described below:

- review and approval of Vectura's strategy;
- regular updates on business performance and market conditions;
- review of project and pipeline progress;
- approval of the budget for FY 15/16;
- review of progress against the approved budget for FY 14/15;
- internally facilitated review of Board effectiveness;
- approval of the corporate goals;
- resignation of Paul Oliver as Chief Financial Officer and Company Secretary;
- appointment of Andrew Oakley as Chief Financial Officer and Company Secretary;
- appointment of Dr Per-Olof Andersson as an independent Non-Executive Director; and
- initiation of the search for a new Chief Executive, following the resignation of Dr Chris Blackwell.

Information and support
To enable the Board to function effectively and to assist Directors in discharging their responsibilities, full and timely access is given to all relevant information. In the case of Board meetings, this consists of a formal agenda and a comprehensive set of papers including regular business progress reports. An established procedure is in place to ensure that such information is provided to Directors in a timely manner in advance of meetings.

Roles and responsibilities
Division of responsibilities between the Chairman and the Chief Executive
Clear roles and responsibilities are fundamental to the effective running of the Board. Whilst maintaining a close working relationship, our Chairman and Chief Executive have clearly defined and separate roles. These roles are set out in writing and have been agreed by the Board.

The Chairman
Our independent Chairman, Bruno Angelici, is responsible for the effective running of the Board and for ensuring its effectiveness in all aspects of its role, in particular for creating the conditions for overall Board and individual effectiveness by:

- providing a sounding board to the Chief Executive;
- setting the agenda, style and tone of Board meetings;
- ensuring that the Board plays a full and constructive part in the development of corporate strategy;
- ensuring the highest standards of leadership and governance at Board level;
- ensuring that the performance of the Board, its committees and individual Directors are evaluated each year; and
- ensuring effective communications with shareholders.

The Chief Executive
Our Chief Executive, Dr Chris Blackwell, is responsible for all aspects of the operation and management of Vectura and its business, within the authorities delegated to him by the Board. In executing this role, Chris Blackwell is responsible for developing the Group's long-term strategic direction and strategy for consideration and approval by the Board. He is also responsible for the Group's operations, strategy implementation and achievement of our operational and financial targets.

Chris Blackwell is supported in his role by other members of the Executive Management Team ("the EMT").

Executive Management Team
The Board has delegated responsibility for day-to-day management of Vectura to the EMT. The EMT is comprised of the Chief Executive, the Chief Financial Officer, the Chief Operations Officer, the Chief Corporate Development Officer, the Chief Commercial Officer and the Director of Human Resources.

The EMT is responsible for developing the strategy approved by the Board and, in particular, is responsible for ensuring that the Group's budget and forecasts are properly prepared, that targets are met and that the business is managed and developed within the overall Board approved budget. Variations from the budget and changes in strategy require approval of the Board.

The EMT normally has eight to ten formal meetings during the year, in addition to weekly update calls. Other senior operational personnel also attend meetings of the EMT as appropriate.

Brief biographies of the EMT members are set out on pages 44 and 46.

Non-Executive Directors
The duties of the Non-Executive Directors include contributing to the formulation of Vectura's strategy, shaping proposals on succession planning and constructively challenging the Executive Directors where they consider it to be appropriate. Vectura's Non-Executive Directors are all experienced and influential individuals and their skills and expertise facilitate the effective functioning of the Board, ensuring that all relevant matters are fully debated and that no one individual can dominate the Board's decision-making process.

Our Non-Executive Directors are encouraged to meet the Chairman without the presence of Executive Directors, as appropriate. Such meetings between the Chairman and the Non-Executive Directors took place during the year and included discussions relating to each Executive Director's performance.

Biographies of the Non-Executive Directors can be found on pages 44 to 45.

Senior Independent Director
John Brown is our Senior Independent Director and he is available to help shareholders with concerns that they cannot resolve through our Chairman, Chief Executive or Chief Financial Officer or for which such a contact is inappropriate in the circumstances.

The Senior Independent Director is responsible for performing an annual review of the performance of the Chairman and he is available to act as an intermediary for Directors, if necessary.

Effectiveness

Independence

The Board has determined that at least half of the Board, excluding the Chairman, is comprised of independent Non-Executive Directors.

Key considerations are set out below:

Share options

The holding of share options by Non-Executive Directors could be, amongst other things, relevant in determining whether a Non-Executive Director is independent. As explained in previous Annual Reports, prior to its listing on the Alternative Investment Market (AIM) on 2 July 2004, in addition to the payment of fees, the Group remunerated Non-Executive Directors with options to acquire shares in Vectura. At the time that the awards were granted, it was essential for an emerging pharmaceutical company such as Vectura to secure the recruitment and retention of Non-Executive Directors with the appropriate experience and international perspective in the context of the Group's then stage of development. As such, the Board considers that the historic granting of share options to Non-Executive Directors while the Company was a private company was appropriate. The share options did not have performance conditions attached to them and thus they were consistent with holding a similar number of shares. After detailed consideration, the Board has determined that it does not believe the holding of share options by John Brown impacted on his independence in character or judgement during the financial year under review.

Dr John Brown exercised his outstanding share options during the year and therefore, as at 31 March 2015, no Non-Executive Directors hold share options in Vectura. There is no intention to award any further options to any Non-Executive Director.

Material business relationships

Other factors that may reflect on the independence of a Non-Executive Director include any material business relationships with the Group. There were no such relationships during the year up until the date of this report, or in the prior year.

Length of service

The Code indicates that serving more than nine years as a Non-Executive Director could be relevant to the determination of a Non-Executive Director's independence. Notwithstanding the fact that John Brown has been a Non-Executive Director for in excess of nine years, the Board, having evaluated his performance, considers that he continues to be fully independent in character and judgement when discharging his duties and responsibilities.

Performance evaluation

The Board has a process for evaluating its own performance and that of its committees and individual Directors, including the Chairman. An annual formal evaluation takes place through an appraisal process and informal evaluation discussions take place on a regular basis throughout the year.

During the year, a questionnaire was circulated 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 consultant and considered by the Board.

Following this review, it was concluded that the Board and committees remained effective and that individual members of the Board have the necessary skills and expertise to discharge their responsibilities. It was noted that the Board has both formal and informal meetings, and this balance provides the dynamics for an effective Board.

Election and re-election

All Directors have service agreements with indefinite terms, with twelve months' notice for Executive Directors, three months' notice for Non-Executive Directors and six months' notice in the case of the Chairman.

Directors are subject to election by shareholders at the first opportunity following their appointment, and to re-election at intervals of no more than three years thereafter. In accordance with the Code, Non-Executive Directors who have served more than nine years on the Board are subject to annual re-election by shareholders.

The performance of Andrew Oakley, who is proposed for election, and the performances of Neil Warner, Susan Foden, John Brown and Trevor Phillips, who are being proposed for re-election, at the Annual General Meeting (AGM), have been evaluated and it has been determined that they continue to perform effectively and show full commitment to their roles on the Board. In accordance with our Articles of Association, Dr Per-Olof Andersson will also be proposed for election at the forthcoming AGM.

Board appointments and succession

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 by the individual members of the Nomination Committee. Evaluations of appropriate candidates are then circulated to all members of the Nomination Committee for consideration, before a recommendation is made to the Board.

The Board recognises the importance of diversity within all levels of the Group and it recognises that the Group, its shareholders and other stakeholders are best served by a Board which is diverse in skills, experience and background, including gender. Accordingly, diversity is considered when making appointments to the Board; however, any appointments are ultimately made on merit against agreed selection criteria.

The recruitment process for Executive and Non-Executive Directors focuses on ensuring that the Board as a whole displays the balance of skills necessary to deliver Vectura's strategy.

Induction and development

It is vital that Directors have a full understanding of the Group and its operations. Therefore, upon appointment each Director undergoes a formal induction programme, which includes briefing materials tailored to his or her particular Board responsibilities. New Directors meet with Board members and executive management as part of their induction process and tours of the Group's main facilities are scheduled to provide them with the opportunity to meet with operational management.

All Directors have access to the advice and services of the Company Secretary, who ensures that Directors take independent professional advice, at Vectura's expense, when it is judged necessary in order for them to discharge their responsibilities.

Directors also receive regular updates on changes and developments within the business as well as information regarding legislative and regulatory changes. During the annual Board effectiveness review, all Directors are encouraged to identify any further training requirements which they feel would assist them in discharging their duties.

Accountability

The Board is committed to providing a fair, balanced and understandable assessment of the Company's position and prospects. For information regarding the Directors' responsibility to prepare financial statements, please refer to the Statement of Directors' responsibilities on page 80. The Independent auditor's report includes a statement by the auditor on his reporting responsibilities.

The measures in place to ensure the auditor's independence are set out in the Audit Committee report on page 56.

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing its effectiveness. In discharging that responsibility, the Board confirms that it has established the procedures necessary to comply with the Code. Employees are required to follow clearly defined internal procedures and policies appropriate to the business and their position within the business. These procedures are regularly reviewed by the Board.

Risk management

Vectura adopts a robust risk management process, which is reviewed on a regular basis. This process is outlined on page 21 of his report. Such a process 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. The significant risks identified are documented on pages 22 to 25 of this Annual Report.

Internal control

The Group's internal controls are regularly reviewed as part of the risk management process. The Audit Committee reviews the Group's internal financial control system on an annual basis and makes recommendations to the Board regarding any improvements that are required. The Board also carries out reviews of the non-financial control systems.

The Group's key systems of internal control include:

- Organisational structure: The Group's organisational structure has clearly established responsibilities and lines of accountability. The Group endeavours to appoint employees with appropriate skills, knowledge and experience for the roles they undertake.
- Documented policies and procedures:
  - The Group has documented quality procedures 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.
  - The Group has a formal policy in place regarding share dealing in Vectura Group plc shares by employees and their connected persons.
  - The Group has a comprehensive financial planning and accounting framework which includes a robust budgeting and forecasting system. Detailed monthly management accounts are prepared and reports are provided to the Board showing actual results against budget and forecast results, highlighting and explaining significant variances. Variance reports are also provided to, and discussed with, the budget manager.
  - The Group has specific controls in place regarding the production of consolidated financial information. This includes operational procedures and validation and review of information.
  - The Group has clear requirements for the approval and control of expenditure. Material or strategic investment decisions are subject to formal approval by the Board. Day-to-day expenditure is controlled using predetermined authorisation limits which are approved by the EMT in accordance with tolerance limits agreed with the Board.
  - Whistleblowing policy: the Group has a formalised whistleblowing policy which is available to all staff via the intranet. This policy provides a mechanism through which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

There have been no significant internal control failings or weaknesses throughout the year ended 31 March 2015 and up to the date of publication of this report.

Remuneration

The Board has adopted remuneration policies that are considered sufficient to attract, retain and motivate Executive Directors of the highest calibre who are capable of delivering the Group's strategic objectives. Remuneration packages are structured in such a way as to link rewards to corporate and individual performance. For further details, please refer to the Remuneration report set out on pages 59 to 77.

Relations with shareholders

Shareholder relations

The Board recognises the importance of regular dialogue with shareholders and regular meetings between institutional shareholders and Executive Directors are held throughout the year. The Chief Executive and the Chief Financial Officer give annual and half-yearly presentations to institutional investors, analysts and the media. Periodic site visits are held, as considered appropriate.

Vectura's brokers collate anonymous feedback after investor presentations. This feedback is then circulated to the Board for its consideration. Through this programme of regular dialogue, the Executive Directors and the Board are able to develop an understanding of shareholder views and objectives and create a mutual understanding of the Company's strategy.

All meetings with shareholders are held in such a way as to protect price sensitive information that has not already been made generally available to the Company's shareholders and similar guidelines apply to communications between the Company and other parties, such as financial analysts, brokers and the media.

In addition, all Non-Executive Directors 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 and Non-Executive Directors meet with major shareholders as required.

Where material changes in respect of remuneration schemes or governance structures are proposed, the Board seeks to consult with its major shareholders before implementing such changes.

The Company views its website (www.vectura.com) as an important investor relations tool, particularly for private investors. In line with best practice, the website is regularly updated, ensuring that information relating to the Group and its activities is easily accessible. The website provides an overview of the business including its strategy, products and objectives.

All periodic reports and accounts are made available to shareholders on the website and paper copies are mailed to those shareholders who have elected to receive them. Separate announcements of all material events are made as necessary by press release. All such announcements are published on the website without delay along with webcasts of both the Interim and Annual Report 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.

Private shareholders are encouraged to express their views and concerns either in person at the AGM or by e-mail using the links provided on the Group's website.

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 making business presentations and inviting shareholder questions. The Chairs of the Audit, Nomination and Remuneration Committees are present at the AGM to answer questions through the Chairman of the Board.

Notice of the meeting is posted to shareholders not less than 20 working days prior to the date of the AGM. The information sent to shareholders includes a summary of the business to be covered at the AGM, where a separate resolution is prepared for each substantive matter. Results of voting at the AGM are posted on the Group's website as soon as they are available.

Read more about our business model on **pages 14 and 15**

Read more on our strategy on **pages 16 and 17**

Dear shareholder

On behalf of the Board, I am pleased to present Vectura's Audit Committee report for the year ended 31 March 2015.

During the financial year, the Audit Committee has continued to focus on the quality and integrity of the information provided in the Group's published financial reports. The Committee continually reviews the corporate governance landscape and is aware of the forthcoming changes to the UK Corporate Governance Code ("the Code") which will come into effect for Vectura during the 2015/16 financial year. The Committee is very supportive of these proposed changes to the Code, and we believe that it allows the Audit Committee to further strengthen its role as the key independent oversight committee at Vectura and to add value to the Group and its operations. This report highlights how the Committee has discharged its responsibilities as set out in the Code.

I hope you will find this report helpful in understanding the work of the Committee.

Neil Warner
Chair of the Audit Committee
19 May 2015

Role and responsibilities

The Audit Committee ("the Committee") operates under written terms of reference, which are modelled on the Code and are available on the Company website, www.vectura.com. The Committee advises the Board as to whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Committee reviews the annual and half-year financial statements and interim management statements. In reviewing these reports, the Committee considers whether the accounting policies applied during the preparation of the information are consistent year-on-year and whether the disclosures made are appropriate, complete and in compliance with the relevant financial reporting standards, corporate governance standards and regulatory requirements. The Committee also considers the significant areas in which judgement has been applied in the preparation of the financial statements. In fulfilling this role, it supports the Board in discharging its responsibilities in relation to Group's external financial reporting and similar announcements.

The Committee manages the relationship with the external auditor on behalf of the Board. During the year, the Committee reviews and monitors the independence of the external auditor and considers the effectiveness of the external audit process. In addition, the Committee is responsible for developing and implementing the Group's policy on non-audit services. The Committee makes recommendations to the Board regarding the appointment and, where appropriate, reappointment of the external auditor and it approves the external auditor's terms of engagement. On an annual basis, the Committee will consider the need for an internal audit function and will make recommendations to the Board accordingly.

The Committee is responsible for reviewing the integrity and effectiveness of the Group's financial risk management and internal control systems.

The Chairman of the Committee reports to the Board on all significant matters reviewed by the Committee.

The Committee has access to the external auditor and, if considered necessary, is authorised to obtain external professional advice including, without limitation, legal and accounting advice to assist in the performance of its duties. No such advice has been sought during the year.

Membership and meetings

In accordance with the Code, the Audit Committee comprises three independent Non-Executive Directors: Mr Warner, Dr Brown and Dr Foden. The Board is satisfied that all members of the Committee have the breadth of knowledge, experience and overview of the Group's business and financial dynamics and the risks facing the Group to effectively fulfil the Committee's responsibilities.

The Committee is chaired by Mr Warner, who is a Fellow of the Institute of Chartered Accountants with significant recent and relevant financial experience. Details of Mr Warner's financial experience are set out in his biography on page 45.

The Group Company secretary acts as Secretary to the Committee and the Executive Directors also attend Committee meetings at the invitation of the Chairman. So as to facilitate open and unreserved discussion, the Committee meets with the external auditor at least twice a year without management being present. The Committee Chairman keeps in touch, as required, with the key people involved in the Group's governance, including the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer and the external audit lead partner.

The composition of the Committee is reviewed annually to ensure that it contains the appropriate balance of knowledge, skills and experience to support the business.

Financial reporting

As explained above, the Committee is responsible for monitoring the integrity of the Group's financial statements and reviewing the significant judgements applied in the preparation of financial information. During the year, the Committee reviewed the Group's interim management statement which was issued in August 2014, the interim report for the period ended 30 September 2014, and the preliminary announcement and Annual Report and Accounts for the year ended 31 March 2015. In November 2014, the Financial Conduct Authority ("the FCA") issued a Policy Statement removing the requirement to publish interim management statements. The Group's interim management statement issued in August 2014 was the last statement required to be published under the FCA regulations.

The significant issues considered and the conclusions reached by the Committee are outlined in this report.

Significant issues considered in relation to the financial statements

Acquisition accounting

On 13 March 2014, the Group announced that it had acquired 100% of the share capital of Activaero GmbH for a total consideration of €130m (£108m). The provisional accounting for this acquisition was set out in the notes to the 2013/14 Annual Report. In accordance with International Financial Reporting Standards, the Group had twelve months to finalise the accounting for the acquisition and, as a result of this, changes have been made to certain balances and the financial statements have been restated to reflect these changes. The full details of the acquisition and the revised accounting treatment applied are set out in note 29 to the financial statements.

The Committee reviewed the revised accounting treatment applied in the 2014/15 financial statements. The key areas of judgement relating to the acquisition are the identification of intangible assets and the subsequent determination of their fair value. Management provided a report to the Committee detailing how intangible assets had been identified, how their useful economic lives had been derived and the key judgements, and assumptions made in determining likely returns and an appropriate discount rate. Each of these issues was discussed with management and the external auditor, who also provided detailed reporting to the Committee in respect of this matter.

Based upon the evidence reviewed and the discussions held, the Committee is satisfied that the identification and calculation of intangible assets is reasonable based upon the known facts and the information available to the Group, and that the transaction has been appropriately presented in the financial statements.

Revenue recognition

As disclosed on page 98 of this report, the Group has five revenue streams, being royalty income, product licensing milestone income, technology licensing milestone income, development services and device sales.

During the year, the Committee reviewed the judgements exercised by management in determining when to recognise key milestone events, particularly those milestones that were achieved around a period end. The Committee also discussed each significant milestone achieved during the year with the external auditor. Following discussions held and the review performed, the Committee is satisfied that the treatment adopted by management is reasonable and in compliance with IAS 18 and Vectura's accounting policies.

Details of the number of meetings held by the Committee and attendance thereat is detailed on page 48.

Member	Date of appointment
N W Warner (Chair)	1 February 2011
J R Brown	13 May 2004
S E Foden	18 January 2007

Committee meetings held during the year coincided with key dates in the Group's financial reporting cycle. The key issues considered by the Committee during the year are outlined in this report.

The recognition of royalty revenue involves accruing for an estimate of underlying product sales in the final quarter, and management has limited visibility over this information, save for where a licensing partner makes the information publicly available, or where a royalty statement is provided to the Group in advance of its financial results reporting date. This area was an increased focus during 2014/15, as the Group has now begun to receive significant royalty streams from a number of new products and therefore management does not have significant historic evidence upon which to base the revenue accrual. The basis for each accrual was discussed with both management and the auditor, and the Committee is satisfied that appropriate assumptions have been made, where actual revenue information is not available to the Group.

Goodwill impairment

During the year, particular attention was paid to the carrying value of goodwill. Goodwill associated with the acquisition of Innovata, Vectura Delivery Devices (VDD) and Co-ordinated Drug Development (since renamed Vectura Limited) totals £49.6m and, as such, it represents one of the largest assets on the Group's balance sheet. For the purposes of impairment testing, management has determined that there is only one cash-generating unit (CGU) relating to these assets. This is considered appropriate in light of the fact that these entities have now fully integrated into the Group and future projects will use a mixture of Innovata, VDD and Vectura Limited technologies and expertise.

The Committee reviewed the judgements and assumptions underlying the models used to support the carrying value of goodwill in the consolidated balance sheet. The primary judgement areas relate to the achievability of long-term business plans and the discount rate applied to the relevant cash flows. Management provided the Committee with a report, outlining the basis for the assumptions made. The Committee reviewed this document and challenged management assumptions where appropriate.

The carrying value of goodwill was also a key area of focus for the external audit team and, accordingly, Deloitte LLP ("Deloitte") provided a detailed report to the Committee regarding management's assumptions and conclusions. This report also included the results of sensitivity testing performed, which assessed whether a "reasonably possible" change in a key assumption could result in an impairment of the balance. The Committee noted that there were no disagreements between the conclusions of management and the conclusions made by the external auditor. Following a review of the evidence provided and discussions with both management and the audit team, the Committee is satisfied that no impairment charge should be recorded in 2014/15 and that the disclosures made in the financial statements are appropriate.

Risk management and internal control

The Board as a whole, including the Audit Committee members, considers the nature and extent of Vectura's financial risk management framework and the risk profile that is acceptable to achieve the Group's strategic objectives. The Committee is responsible for reviewing the adequacy and effectiveness of the Group's risk management and internal control systems. In order to discharge this responsibility, the Committee receives reports from Vectura's management team and the external auditor as appropriate. The Committee has noted the upcoming changes to the Code in respect of risk management and reporting of risk and notes that the Group is currently performing a review of risk management practices in conjunction with an external specialist to ensure that risk management policies and practices remain compliant with evolving best practice.

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.

Whistleblowing

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 Group has a formal whistleblowing policy, which is available to all staff via the Group's intranet.

UK Bribery Act

The Group has continued to operate its anti-bribery policy, introduced in 2010, in response to the UK Bribery Act 2010. This has included the conduct of due diligence on new key business partners who may act on behalf of the Group in higher risk areas of business.

External audit

The external auditor, Deloitte, is engaged to express an opinion on the Group's and the Company's financial statements.

The Audit Committee is responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor. When considering reappointment, the Committee considers the independence of the audit firm and the effectiveness of the overall external audit process.

Audit engagement partner rotation

Deloitte adheres to a rotation policy which is in accordance with the ethical standards of the Audit Practices Board ("the APB") and the Group engagement partner is rotated every five years. David Hedditch, the current engagement partner, was appointed during the 2012/13 financial year and therefore the next rotation is scheduled to take place in time for the 2017/18 financial year audit.

External audit continued

Independence and non-audit work performed by the external auditor

The Committee is responsible for monitoring and reviewing the independence and objectivity of the external auditor. On an annual basis, the auditor confirms its policies for ensuring auditor independence and provides the Committee with a confirmation that it continues to be independent in respect of the forthcoming audit engagement.

Vectura's policy on the provision of non-audit services is a key mechanism which safeguards the independence of the external auditor. The provision of non-audit services by the auditor is governed by a "non-audit services policy", which is reviewed by the Committee on an annual basis. The policy sets out the circumstances in which the external auditor may be permitted to undertake non-audit services and the overriding purpose of the policy is to ensure that the auditor does not provide a service that:

- creates a mutuality of interest;
- places the auditor in a position of auditing their own work;
- results in the auditor acting as a Vectura manager or employee; or
- places the auditor in a position to advocate for Vectura.

Vectura does not impose an automatic restriction on the provision of non-audit services by the external auditor. The external auditor is eligible for selection to provide non-audit services that are not, and are not perceived to be, in conflict with auditor independence, provided that the auditor has the skill, competence and integrity to carry out the work in the best interest of the Group. Where appropriate, services are tendered prior to awarding work to the external auditor.

During the year, Deloitte undertook non-audit services, and the relevant fees are disclosed in note 5 to the financial statements. These services were provided in compliance with the policy outlined above and no actual conflicts of interest were found to exist between the audit work and the non-audit work performed, which related to the interim financial report and tax compliance work. The Committee considered that it was appropriate for the auditor to undertake these services given the nature of the work to be performed. During a planning meeting held in February 2015, the external auditor confirmed to the Audit Committee that it had met its statutory requirements with regard to independence.

Accordingly, the Audit Committee confirms that the Group continues to receive an independent audit service. On this basis, the Committee has recommended to the Board that Deloitte be reappointed as the Group's auditor for a further year. This recommendation has been accepted by the Board.

Effectiveness

The Committee places great importance on ensuring that there are high standards of audit quality and effectiveness in the external audit process. The effectiveness of the external audit process is reviewed on an annual basis, and this includes consideration of the qualification, expertise, resources, remuneration and independence of the auditor. Where appropriate, actions are agreed in respect of any issues identified and these are monitored for progress.

At the conclusion of the 2014/15 financial year audit, the Committee performed a formal evaluation of the performance of the external auditor. In performing this evaluation, the Committee worked with the external auditor, Executive Directors and relevant senior management. In addition to this, the Committee performs its own ongoing evaluation of audit quality and effectiveness, taking into account such matters as the quality of reporting to the Committee by the external auditor and the level and quality of the interactions between the Committee and the audit partner.

Tendering

Deloitte has been Vectura's auditor since 2007 following its full listing on the London Stock Exchange. During that time, the audit has not been formally tendered and, whilst this is not currently a formal requirement for Vectura under the Code, the Committee has due regard for the transitional rules of the Competition and Markets Authority and the EU and will continue to monitor the need to put the audit out to tender. There are no contractual restrictions in place that would restrict the choice of the external auditor.

Committee effectiveness review

During the year, the Committee reviewed its own effectiveness as part of the overall Board evaluation process. The Committee considered that it acted transparently and, given the number of Committee and Board meetings scheduled throughout the financial year, maintained a thorough understanding of the Group and its business. The results of the review were advised to the Board.

Neil Warner
Chairman of the Audit Committee
19 May 2015

Dear shareholder

On behalf of the Board, I am pleased to present Vectura's Nomination Committee report for the year ended 31 March 2015. The role of the Committee is to ensure that the Group maintains a Board which is appropriately balanced and, as a unit, functions as efficiently and effectively as possible.

During the year, the Committee has continued to focus on the issues of succession planning and overall Board balance and composition. The Committee considered and made recommendations to the Board regarding the appointment of Andrew Oakley as our new Chief Financial Officer and Per-Olof Andersson as Non-Executive Director. The Committee also began a search for a new Chief Executive to replace Dr Chris Blackwell, who announced in February 2015 that he would be standing down from this role.

On 1 April 2015, I stood down as Chairman of the Nomination Committee and I was succeeded by Bruno Angelici, Chairman of the Board.

Dr John Brown
Chair of the Nomination Committee
19 May 2015

Role and responsibilities

The Nomination Committee ("the Committee") operates under written terms of reference, which are modelled on the UK Corporate Governance Code ("the Code") and are available on the Company website, www.vectura.com. The Committee reviews these terms on an annual basis. No material changes were made to the terms of reference during the year.

The Committee is responsible for reviewing the structure of the Board and Board Committees and evaluating the balance of skills, experience, independence and knowledge of the Board as a whole. On the basis of this evaluation, the Committee makes recommendations to the Board regarding Board appointments. Where the need for a new Executive or Non-Executive Director is identified, the Committee is responsible for preparing a description of the role and the capabilities required for a particular appointment and for identifying and nominating potential candidates to fill the vacancy.

The Committee also ensures that appropriate succession plans for Non-Executive Directors, Executive Directors and the Group's senior management are kept under review with a view to ensuring the long-term success of the Group.

Membership and meetings

The membership of the Committee, the number of Committee meetings held and attendance thereat can be found on page 48 of the Governance section of this annual report.

The Committee comprises four independent Non-Executive Directors, John Brown, Susan Foden, Neil Warner and the Chairman of the Board, Bruno Angelici.

During the financial year FY 14/15, the Committee was chaired by John Brown. With effect from 1 April 2015, Bruno Angelici, the Chairman of the Board, has been appointed as the Chairman. Details of Bruno Angelici's experience are set out in his biography on page 44.

The Group Company Secretary acts as Secretary to the Committee. The Executive Directors, other members of Executive Management and external advisors may also attend Committee meetings as required, at the invitation of the Chairman.

Membership and meetings continued

The Committee is authorised to obtain external professional advice including, without limitation, legal and other professional advice to assist in the performance of its duties. During the year, the Committee has utilised the services of Russell Reynolds and Spencer Stuart, as outlined below. Both firms are signatories to the Voluntary Code of Conduct for Executive Recruitment Firms (as recommended by the Davies Report). There were no other services provided by these firms during the year.

The Committee met three times during the year ended 31 March 2015, and all members were present at each meeting. Additionally, the Committee held a number of informal meetings and discussions during the year.

The key issues considered by the Committee during the year are outlined below.

Appointment of Directors

There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board under which the Committee interviews suitable candidates who are proposed either by existing Board members or by an external executive recruitment firm. The Committee gives careful consideration to the appointment of any proposed appointee, to ensure that the candidate has sufficient time available to devote to the role as well as the required level of skill and knowledge to ensure that the balance of skills, experience and knowledge on the Board is maintained.

During the year, Paul Oliver announced his intention to stand down as Chief Financial Officer and Company Secretary. The Committee appointed an executive recruitment firm, Russell Reynolds, to find a suitable replacement for Paul, giving due regard to the experience and skills required for the role. Russell Reynolds has no other connection to the Company.

Following this recruitment process, the Committee recommended to the Board that Andrew Oakley be appointed as Paul's successor. Andrew gained considerable experience at two Swiss bio-pharmaceutical companies, including nearly eleven years at Actelion, a leading international bio-pharmaceutical company. He joined Actelion as Chief Financial Officer in 2003 and during his tenure the company enjoyed a period of strong growth, with sales rising more than ten-fold to CHF1.8bn in 2013. During his time at Actelion, Andrew accumulated considerable transaction experience, including acquisitions, out-licensing and in-licensing deals. After leaving Actelion in 2013, he served as Chief Financial Officer at privately held Swiss biotech Novimmune. As such, Andrew was well placed to succeed Paul as the Group's Chief Financial Officer and the Board was unanimous in accepting the recommendation of the Committee to appoint him as an Executive Director and Company Secretary.

The Committee undertook a search for a Non-Executive Director during the year. This followed a review of the existing skills and experience of the Non-Executive Directors and it was assessed that a non-executive director with an extensive background in research and development would bring much benefit to the Board. The Committee subsequently appointed the executive recruitment firm, Spencer Stuart, to assist with this search. The Committee worked with Spencer Stuart who drew up a list of candidates from a range of industries and backgrounds for initial appraisal by the Committee. From this list, a shortlist of suitable candidates who met the search and selection criteria was prepared and these candidates were interviewed by members of the Nomination Committee. Spencer Stuart has no other connection to the Company.

Following this extensive international search, the Committee recommended the appointment of Per-Olof Andersson to the Board as a Non-Executive Director. Per-Olof disclosed his significant commitments to the Board prior to his appointment and the Board as a whole were satisfied that he had sufficient time to devote to this role. Per-Olof Andersson was appointed on 1 April 2015 and he has been appointed for an initial term of three years, subject to election by shareholders at the Annual General Meeting on 24 September 2015. The appointment may be terminated earlier than three years at the discretion of either party upon three months' notice.

Per-Olof Andersson has an international R&D track record within the pharmaceuticals, bio-pharmaceuticals and specialty pharmaceutical industry and considerable experience in respiratory therapeutic development. In 2011, Per-Olof retired from Almirall where he was Executive Director for R&D and Member of the Board of Directors. Prior to joining Almirall in 2006, Per-Olof had a distinguished international career at Pharmacia and Pfizer over a period of nearly 20 years.

Per-Olof was independent at the time of his appointment to the Board, in accordance with B.1.1 of the UK Corporate Governance Code. Full biographical details can be found on page 45.

Following the announcement in February 2015 that Dr Chris Blackwell will step down as Chief Executive, the Committee appointed a well known search firm in the search for a suitable replacement. The Committee has provided them with a role description, together with a list of the required skills and personal attributes to be considered. The Nomination Committee is in the process of interviewing shortlisted candidates and the final recruitment decision will be taken by the Board as a whole.

Diversity

The Board's policy on diversity is set out on page 50.

The search for Board candidates is conducted, and appointments made, on merit against objective selection criteria and having due regard, amongst other things, to the benefits of diversity on the Board, including the inclusion of women. Diversity is considered by the Nomination Committee in considering Board composition and in the process of making Board appointments.

Committee effectiveness review

During the year, the Committee reviewed its own effectiveness as part of the overall Board evaluation process. The Committee considered that it acted transparently and, given the number of Committee and Board meetings scheduled throughout the financial year, maintained a thorough understanding of the Group and its business. The results of the review were advised to the Board.

Dr John Brown
Chairman of the Nomination Committee
19 May 2015

Read more about our KPIs on **pages 18 and 19**

Read more about our strategy on **pages 16 and 17**

Dear shareholder
On behalf of the Board, it is my pleasure to present Vectura's Remuneration Committee report for the year ended 31 March 2015.

This has been an important year for Vectura. The Group has delivered significant progress against its financial and non-financial KPIs, Activaero has been successfully integrated and the Group has completed its portfolio review and set its strategy for future growth. Revenues have increased by 59% as a result of organic growth in high quality royalty streams and significant development milestones earned during the year. These milestone events are linked to what we expect to be significant revenue streams to Vectura over the coming years. As such, Vectura is well positioned to deliver on its current strategy and ambitions to become a speciality pharmaceutical business.

In light of the excellent performance of the Group and the continued development of Vectura's structure and profile, the Committee has approved adjustments in the base salary of each of the Executive Directors for the forthcoming year. Details of each Director's base salary are set out on page 77 of the report. This review has been undertaken in accordance with our approved remuneration policy whereby the Committee has considered a number of parameters in determining appropriate base salary levels including, inter alia, pay awards across the general workforce, Company growth and complexity and alignment of salaries with our policy statement in regard of mid-market levels.

The Committee also recommended bonus payments to the Executive Directors of 80%–84% of base salary in respect of the year ending 31 March 2015 after performing a detailed review of performance against the agreed corporate and personal bonus objectives. The Committee considers that these awards appropriately reflect Vectura's performance over the past financial year, which represents demonstrable and significant progress against stretching financial and non-financial targets.

The Committee believes that long-term incentives should comprise the most significant element of the remuneration package for Executive Directors, with stretching performance metrics that are clearly aligned to the creation of shareholder value. During the year, the Committee has considered the vesting of LTIP awards made in 2010 and approved an LTIP award equal to 100% of base salary for Executive Directors which was granted on 1 July 2014. The Committee continues to review Vectura's long-term incentive arrangements. The Committee will continue to engage with major shareholders and their representative bodies regarding the development and implementation of Vectura's remuneration policy in respect of long-term incentives and variable pay arrangements.

In assessing the vesting of the 2010 LTIP award, the Committee engaged PricewaterhouseCoopers LLP (PwC) to assess Vectura's performance against the relevant metrics over the measurement period. Over the measurement period, Vectura's TSR exceeded that of the upper quartile of the FTSE SmallCap Index and the average share price requirement of £1.27 was also exceeded. Accordingly, the Committee approved 100% vesting of the award.

During the year, the Committee applied Vectura's approved remuneration policy as the basis for determining the remuneration package of the new Chief Financial Officer, Andrew J Oakley. Andrew's base salary was set at £275,000, which the Committee believes is representative of the mid-market salary for this position. In addition, the Committee gave due regard to Vectura's remuneration policy on termination and loss of office with respect to the departure of Paul Oliver as Chief Financial Officer and Company Secretary and considered the treatment of Paul's unvested LTIP awards and awards made under Vectura's all-employee share schemes. Details of the payments made to Paul and the arrangements for his share option awards are set out on page 75 of this report.

This year's report retains the same structure as last year's remuneration report; it consists of three sections:

1. This annual statement.
2. A policy report, which describes the remuneration of Executive and Non-Executive Directors and, save for minor amendments to reflect the passage of time, is unchanged from that which was approved by shareholders for three years at the 2014 Annual General Meeting. This section of the report is not subject to audit.
3. The Annual report on remuneration, which is prepared in accordance with the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the relevant provisions of the Listing Rules of the Financial Conduct Authority. Certain parts of this report are subject to audit and these areas have been clearly identified.

Our Annual report on remuneration will be subject to an advisory vote at our forthcoming Annual General Meeting on 24 September 2015. I hope that you will join me in supporting this resolution.

Yours sincerely

Dr Susan Foden
Chair of the Remuneration Committee
19 May 2015

LINKING REMUNERATION TO PERFORMANCE

The report that follows has been prepared in accordance with the provisions of the Companies Act 2006 ("the Act"), the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ("the Regulations"). It also meets the requirements of the UK Listing Authority's Rules and the Disclosure and Transparency Rules.

In this report, we also describe how the principles of good governance relating to Directors' remuneration, as set out in the Corporate Governance Code ("the Code"), are applied in practice. The Committee confirms that Vectura has complied with these governance rules and best practice provisions throughout the year ended 31 March 2015.

The Regulations require our auditor to report to shareholders on the audited information contained within this report, and to state whether, in their opinion, the relevant sections have been prepared in accordance with the Act. The elements of the Annual report on remuneration which are subject to audit have been clearly identified, and the auditor's opinion is set out on page 81 of this Annual Report and Accounts for the year ended 31 March 2015.

Introduction

The following report is presented in two separate sections:

- Directors' remuneration policy – set out on page 60 to 67; and
- Annual report on remuneration – set out on pages 67 to 77.

At the 2014 Annual General Meeting ("the AGM"), 98.2% of shareholders approved the Directors' remuneration policy. The policy report is therefore included for reference only, with minor amendments made to reflect the passage of time and changes to the composition of the Board during the year.

The Annual report on remuneration continues to be subject to an advisory vote by shareholders at the AGM.

Unaudited information

Directors' remuneration policy

Vectura's remuneration policy is driven by its strategy and business model and the core principles underlying the policy remain unchanged. Vectura aims to provide a remuneration package that is sufficient to attract, retain and motivate high-calibre Executive Directors who have the necessary skills and expertise to deliver the business strategy. The Committee recognises that remuneration packages should be appropriately structured, including both fixed and variable pay elements and a mixture of short, medium and long-term incentives. The Committee believes that appropriately structured remuneration packages serve to align the actions and interests of our Executive Directors with those of our shareholders.

Summary remuneration policy

The following table and accompanying notes set out the main principles of reward for the Executive Directors of Vectura Group plc.

For the avoidance of doubt, any commitments entered into by the Company prior to the approval and implementation of the policy outlined below may be honoured, even if they are not consistent with the policy prevailing at the time the commitment is fulfilled.

Executive Directors

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Base salary			
To recruit and retain executives of the highest calibre who are capable of delivering the Group's strategic objectives, reflecting the individual's experience and role within the Group. Base salary is designed to provide an appropriate level of fixed income to avoid an over-reliance on variable pay elements that could encourage excessive risk taking.	The Committee aims to provide base salary 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. Salaries are normally reviewed annually and changes are generally effective from 1 April. The annual salary review of Executive Directors takes a number of factors into consideration, including: • business performance; • salary increases awarded to the overall employee population; • skills and experience of the individual over time; • scope of the individual's responsibilities; • changes in the size and complexity of the Group; • market competitiveness; and • the underlying rate of inflation.	Base salary increases are awarded at the discretion of the Committee; however, salary increases will normally be no greater than the inflationary pay rises awarded to the wider workforce. Where peer review data indicates that a role is under-remunerated, or where there has been a change in responsibilities, the Committee retains the discretion to award more significant base salary increases.	No formal metrics although increases will take account of Group performance.
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 Company aims to offer benefits that are in line with market practice. The main benefits currently provided are life assurance, permanent health insurance and private medical and dental insurance. Under certain circumstances the Group will offer relocation allowances to employees.	The value of each benefit is not predetermined and is based upon the cost to the Group.	Not performance related.

Executive Directors **continued**

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Pensions			
The Group aims to provide market-competitive retirement benefits, to reward sustained contribution.	The Group operates a money purchase scheme and all employees, including Executive Directors, are invited to participate. For executives who are affected by the HMRC lifetime or annual allowances, the Company may provide cash supplements in respect of benefits above the allowance.	Up to 20% of base salary contribution to the Group Personal Pension Plan or equivalent cash allowance.	Not performance related.
Annual performance bonus			
An annual cash bonus rewards the achievement of stretching objectives that support the Group's corporate goals and delivery of the business strategy together with goals in relation to personal performance.	Objectives are agreed with the Committee, and the Board as a whole, at the start of each financial year. Different performance measures and weightings may be used each year, as agreed with the Committee, to take into account changes in the business strategy. Bonuses are paid at the discretion of the Remuneration Committee. The Committee takes into account overall corporate performance and individual performance when determining the final bonus amount to be awarded. Bonuses are paid in cash, typically in June. Under the rules of the scheme, the Committee can claw back up to 100% of the bonus awarded in the event of material misstatement of the Company's financial results, an error in assessing the performance conditions to which an award is subject or for any other matter which it deems relevant.	Bonuses are limited to a maximum of 100% of base salary for each Executive Director.	Corporate goals typically include revenue generation, development of pipeline progress, partnering successes and control of cash expenditure, although the Committee has discretion to set other targets. Goals set are specific, measurable and linked to the Group's longer-term strategy. 0% of the maximum is payable at threshold performance.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
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 which encourages strong corporate performance on an absolute and relative basis.	Awards are made on an annual basis, at the discretion of the Remuneration Committee. Awards consist of shares that vest according to performance conditions. Typically, awards are granted following the release of full-year or interim financial results. Awards are discretionary and do not vest until the date on which the performance conditions are determined. If employment ceases during a three-year performance period, awards will typically lapse, save in certain good leaver situations. The Committee may decide that an award will be subject to clawback where there has been a misstatement of the Company's financial results, an error in assessing the performance conditions to which an award is subject or for any other matter which it deems relevant.	Awards of up to 200% may be granted; however, Executive Directors would normally receive grants of 100% of salary.	Awards are subject to challenging performance measures. Current awards are based on relative total shareholder return (TSR) measured over a three-year period against two peer groups each determining the vesting of 50% of the awards. The Committee retains the discretion to vary the peer groups and the weighting between them, and to introduce new metrics for awards in future years, providing they are not materially less challenging in the circumstances. The Committee would normally consult with its major shareholders before making significant changes to the performance conditions. Awards are subject to an "underpin" based on the Committee's assessment of the Group's underlying performance against a range of factors, including the Company's underlying financial performance, absolute shareholder return and progress against milestones over the three-year performance period. Any exercise of discretion will be fully disclosed to shareholders. Furthermore, the Company will consult with its major shareholders before exercising its discretion to increase the percentage that vests. The performance conditions for previous long-term incentive awards are described in the Annual report on remuneration section. For the current TSR performance conditions 25% of the award vests at median against the peer group, increasing on a straight-line basis so that 100% vests for performance at or above the upper quartile.

Executive Directors **continued**

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
All-employee share schemes			
All employees, including Executive Directors, are encouraged to become shareholders of Vectura Group plc through participation in our all-employee share schemes. The Group currently offers employees the opportunity to participate in the Vectura Sharesave Scheme and the Vectura Share Incentive Plan (SIP).	Both of the schemes offered are HMRC approved schemes and operate on standard terms.	Participation limits are set by the relevant tax authorities from time to time.	Not performance related and no performance conditions apply.
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 reached the required level of holding.	Executive Directors are required to build and retain a holding of Vectura Group plc shares equivalent to at least 100% of their base salary.	Not performance related.

Chairman and Non-Executive Directors

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Fees			
Set at a level that is sufficient to attract and retain high-calibre Non-Executives.	The Chairman and the Non-Executive Directors receive fees paid in cash, with additional fees received for chairing committees of the Board or fulfilling the role of Senior Independent Director. Fees are paid monthly and reviewed annually. The Chairman and the Non-Executive Directors do not participate in any performance-related incentive schemes, nor do they receive any benefits, other than limited travel and hospitality-related benefits in connection with their roles.	When reviewing fee levels, account is taken of market movements in the fees of Non-Executive Directors, Board committee responsibilities and ongoing time commitments.	Not performance related.

Notes to the policy table

Performance conditions

The Committee selected the performance conditions outlined in the remuneration policy because they are central to the Group's overall strategy and they are the key metrics used by the Executive Directors to oversee the operations of the business. The Committee considers that the performance targets for the LTIP and the bonus represent an appropriate balance between the long-term and short-term performance of the Group, as well as an appropriate balance between external and internal assessments of performance.

The targets for the bonus scheme for the forthcoming year will be set out in general terms, subject to limitations with regards to commercial sensitivity. The full details of the targets will be disclosed when they are in the public domain, usually following the end of the relevant financial year in the Annual report on remuneration.

Committee discretion

The Committee operates under the powers it has been delegated by the Board. In addition, it complies with rules that have either been approved by shareholders (Long-Term Incentive Plan) or by the Board (annual performance bonus scheme). These rules provide the Committee with certain discretions which serve to ensure that the implementation of the remuneration policy is fair, both to the individual Director and to the shareholders. The Committee also has discretions to set components of remuneration within a range, from time to time. The extent of such discretions is set out in the relevant rules, the maximum opportunity or the performance metrics section of the policy table above.

To ensure the efficient administration of the variable incentive plans outlined above, the Committee will apply certain operational discretions. These include the following:

- selecting the participants in the plans on an annual basis;
- determining the timing of grants of awards and/or payments;
- determining the quantum of awards and/or payments (within the limits set out in the policy table overleaf);
- determining the extent of vesting based on the assessment of performance;
- making the appropriate adjustments required in certain circumstances, for instance for changes in capital structure;
- determining "good leaver" status for incentive plan purposes and applying the appropriate treatment; and
- undertaking the annual review of weighting of performance measures and setting targets for the annual bonus plan and other incentive schemes, where applicable, from year to year.

If an event occurs which results in the annual bonus plan or LTIP performance conditions and/or targets being deemed no longer appropriate (e.g. material acquisition or divestment), the Committee will have the ability to adjust appropriately the measures and/or targets and alter weightings, provided that the revised conditions are not materially less challenging than the original conditions.

Remuneration scenarios for Executive Directors

The charts below show hypothetical values of the remuneration package for each Executive Director under three assumed performance scenarios and these scenarios are based upon the remuneration policy set out above. The information presented below uses the level of salary, benefits and pension entitlements for each of the Directors as at 1 April 2015. Refer to page 77 of this report for details of base salary levels set for the coming year.

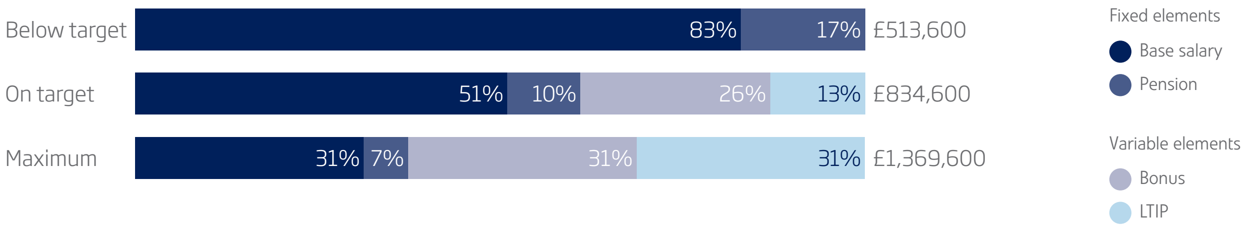
Below target remuneration receivable – this scenario assumes that there is no annual bonus payment and no awards under the LTIP award vest.

On-target performance – this scenario assumes that the Directors receive a 50% bonus payout. It is assumed that a face value limit of 100% base salary applies to the LTIP award and that 25% of the LTIP granted would ultimately vest.

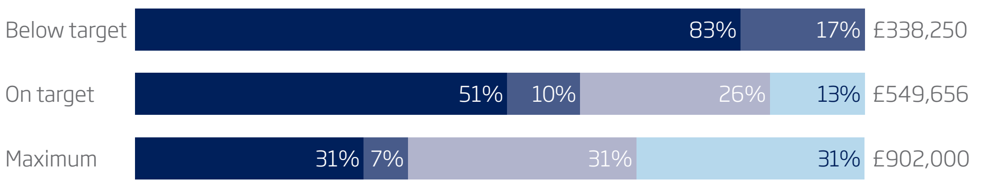
Stretch remuneration receivable – this scenario assumes that the Directors receive a maximum bonus payout of 100% of their salary. It is assumed that a face value limit of 100% base salary applies to the LTIP award and that 100% of the LTIP granted would ultimately vest.

Remuneration scenarios for Executive Directors

Chris Blackwell



Trevor Phillips and Andrew J Oakley



The actual amounts earned by Executive Directors under these three scenarios will depend on share price performance over the vesting period. For the purpose of these illustrations, any share price appreciation has been ignored. For simplicity, the value of participating in the Company's all-employee share schemes has also been ignored.

Other remuneration policies

Termination and loss of office payments

The Group's policy on remuneration for Executive Directors who leave the Group is consistent with general market practice and it is set out below. The Committee will exercise its discretion when determining amounts that should be paid to leavers, taking into account the facts and circumstances of each case. When calculating termination payments, the Committee will take into account a variety of factors, including individual and Company performance, the length of service of the Executive Director in question and, where appropriate, the obligation for the Executive Director to mitigate loss.

In the case of a "good leaver", the following policy will normally apply:

- notice period of twelve months and pension and contractual benefits, or payment in lieu of notice;
- statutory redundancy payments will be made, as appropriate;
- executives have no entitlement to a bonus payment in the event that they cease to be employed by the Group; however, they may be considered for a prorated award by the Committee in good leaver circumstances;
- the rules of the LTIP contain provisions setting out the treatment of awards where a participant ceases to be employed by the Vectura Group. Other than in good leaver circumstances, awards will normally lapse. In the event of a participant's death, retirement, ill health, injury, disability or redundancy or the sale of his employing company or business out of the Vectura Group or for any other reason at the discretion of the Remuneration Committee, awards will not be forfeited but will instead vest on the normal vesting date. Vesting in these circumstances will be subject to the satisfaction of the relevant performance conditions measured at that time and time prorating. In exceptional circumstances, the Remuneration Committee may allow the awards to vest on cessation of the participant's employment, subject to the satisfaction of the performance conditions measured at that time and time prorating. In either case, the Remuneration Committee can decide to disapply time prorating if it thinks it is appropriate to do so in the particular circumstances;
- any other share-based entitlements granted to an Executive Director under the Company's share and share option plans will be determined based upon the relevant plan rules; and
- the Committee may also provide for the leaver to be reimbursed for a reasonable level of legal fees in connection with a settlement agreement.

In circumstances in which a leaving Director may be entitled to pursue a legal claim, the Company may negotiate settlement terms if it considers this to be in the best interests of the Company and, with the approval of the Committee on the remuneration elements therein, enter into a settlement agreement.

Executive 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 twelve months' notice.

This applies to the contract of Chris Blackwell, which was effective from 24 June 2004, Trevor Phillips' contract, which was amended with effect from 16 July 2012, and Andrew J Oakley's contract, which took effect from 1 January 2015. Executive Directors are subject to re-election at an AGM at intervals of no more than three years.

The Executive Directors may accept outside appointments, with prior Board approval, provided that these opportunities do not negatively impact on their ability to fulfil their duties to the Group. Whether any related fees are retained by the individual or are remitted to the Group will be considered on a case-by-case basis. None of the Executive Directors currently hold any outside directorships.

Non-Executive Directors' terms of engagement

All Non-Executive Directors have specific terms of engagement which are terminable on not less than three months' notice by either party and six months' notice in the case of the Chairman. The remuneration of Non-Executive Directors is determined by the Board within the limits set by the Articles of Association and based on a review of fees paid to Non-Executive Directors of similar companies. All Non-Executive Directors are subject to re-election at an AGM at intervals of no more than three years.

The dates of appointment of each of the Non-Executive Directors serving at 31 March 2015 are summarised in the table below.

A Board evaluation has been performed and the results of this exercise confirmed that all Non-Executive Directors were independent, including John Brown, who has service greater than nine years. John Brown's independence is considered valid due to the major change in the operating activities of the Group and the refreshment of Non-Executive and Executive members of the Board during the term of his appointment.

Remuneration for new appointments

Where it is necessary to recruit or replace an Executive Director, the Committee has determined that the new Executive Director will receive a compensation package in accordance with the provisions of the policy.

In setting base salary for new Executive Directors, the Committee will consider the existing salary package of the new Director, and the individual's level of experience. In setting the annual performance bonus, the Committee may wish to set different performance metrics (to those of other Executive Directors) in the first year of appointment. Where it is appropriate to offer a below-median salary on initial appointment, the Committee will have the discretion to allow phased salary increases over a period of time for a newly appointed Director, even though this may involve increases in excess of inflation and the increases awarded to the wider workforce.

Non-Executive Directors' dates of appointment

	Date of appointment
J R Brown	13 May 2004
S E Foden	18 January 2007
N W Warner	1 February 2011
B F J Angelici	1 December 2013

The Committee wishes to retain the ability to make buyout awards to a new Executive Director, to facilitate the recruitment process. The amount of any such award would not exceed the expected value being forfeited and, to the extent possible, would mirror the form of payment, timing and degree of conditionality, etc. Where awards are granted subject to performance conditions, these would be relevant to Vectura Group plc. Any such award would only be made in exceptional circumstances and shareholders would be informed of any such payments at the time of appointment. Share-based awards would be made using the existing share plans where possible although the Committee may also use the flexibility provided under the Listing Rules to make awards without prior shareholder approval.

In respect of internal appointments, any commitments entered into in respect of a prior role, including variable pay elements, may be allowed to pay out according to its prior terms.

For external and internal appointments, the Committee may consider it appropriate to pay reasonable relocation or incidental expenses, including payment of reasonable legal expenses. Tax equalisation may be considered if an Executive Director is adversely affected by taxation due to their employment with the Company.

The terms of appointment for a Non-Executive Director would be in accordance with the policy for remuneration of Non-Executive Directors as set out in the policy table.

Consideration of employment conditions elsewhere in the Group

Whilst the Committee does not consult directly with employees regarding the policy, the Committee considers the general basic salary increase for the broader employee population when determining the annual salary increases and remuneration packages for the Executive Directors. Accordingly, the Committee confirms that the remuneration policy outlined above has been designed with due regard to the policy for remuneration of employees across the Group.

The remuneration of senior executives below Board level is reviewed by the Committee on an annual basis. The remuneration packages of these executives are consistent with the policy outlined above, save that lower bonus percentages and lower LTIP opportunities are applicable. Variable pay elements for senior executives are driven principally by market comparatives and the overall impact of the role the individual holds at Vectura. Long-term incentives are provided to those individuals identified as having significant potential to influence Group performance.

Vectura aims to provide all employees with a market-competitive remuneration package that includes certain key benefits such as life assurance, permanent health insurance, private medical insurance, access to the pension scheme, participation in Vectura's all-employee share schemes and eligibility to receive a bonus. The bonus scheme for Directors and employees is designed to reward performance, and all individuals are required achieve challenging personal goals.

How shareholders' views are taken into account

The Committee takes an active interest in shareholders' views and voting on the Remuneration report. Throughout the year, the Committee has engaged directly with major shareholders and their representative bodies regarding the application of Vectura's remuneration policy for the financial year ended 31 March 2015. The Committee will continue to engage directly with major shareholders and their representative bodies should any material changes to the policy be proposed.

The Committee also considers shareholder feedback received in relation to the AGM each year and guidance from shareholder representative bodies more generally.

Annual report on remuneration

Remuneration Committee ("the Committee")

Governance

The Committee consists entirely of independent Non-Executive Directors. The Committee is chaired by Susan Foden and, during the year ended 31 March 2015, its members were Bruno Angelici, John Brown and Neil Warner.

In accordance with the requirements of the UK Corporate Governance Code, the Board has confirmed that Bruno Angelici was independent upon his appointment to the Board, and he continues to be independent. No conflicts of interest have arisen during the year and none of the members of the Committee have any personal financial interest in the matters discussed, other than as shareholders. The fees of the Non-Executive Directors are determined by the Board on the joint recommendation of the Chairman and the Chief Executive.

The Committee takes account of information from both internal and independent sources, including New Bridge Street (an Aon Hewitt Ltd company, part of Aon plc), which acts as the Committee's principal, and only material, advisor. New Bridge Street (NBS) advises on all aspects of Vectura's remuneration policy and reviews Vectura's remuneration structures against corporate governance best practice.

NBS is a founder member of the Remuneration Consultants Group and complies with its Code of Conduct, which sets out guidelines to ensure that its advice is independent and free of undue influence. The Committee reviews the performance and independence of its advisors on an annual basis. During the year, Vectura incurred fees of £81,000 from NBS. The Committee also engaged the services of PricewaterhouseCoopers LLP (PwC) to undertake total shareholder return (TSR) calculations in respect of the LTIP award which vested in 2014. PwC was paid £8,000 in respect of this engagement.

The Group's Director of Human Resources provides updates to the Committee, as required, to ensure that the Committee is fully informed about pay and performance issues throughout the Group. The Committee takes these factors into account when determining the remuneration of the Executive Directors and senior executives.

No Executive Director or employee is allowed to participate in any discussion directly relating to their conditions of service or remuneration.

Role

The Committee's principal function is to support Vectura's strategy by ensuring that those individuals responsible for delivering the strategy are appropriately incentivised by Vectura's remuneration policy. In determining the Group's current policy, and in constructing the remuneration arrangements for Executive Directors and senior employees, 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.

Annual report on remuneration **continued**

Remuneration Committee ("the Committee") **continued**

Governance continued

Role continued

The Committee is responsible for:

- setting a remuneration policy that is designed to promote the long-term success of the Company;
- 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 performance targets for any annual incentive schemes that include the Executive Directors and senior executives;
- agreeing the design and performance targets, where applicable, of all share incentive plans requiring shareholder approval;
- rigorously assessing the appropriateness and subsequent achievement of the performance targets related to any share incentive plans;
- recommending to the Board the fees to be paid to the Chairman. The Chairman is excluded from this process; and
- selection and appointment of the external advisors to the Committee to provide independent remuneration advice where necessary.

The Committee is formally constituted and operates on written terms of reference, which are modelled on the Code and are available on Vectura's website, www.vectura.com.

Meetings and key decisions during FY14/15

The Committee met formally four times during the year ended 31 March 2015.

The key decisions made by the Committee during the year are summarised below:

- approval of overall pay levels for 2014/15 for the Group as a whole;
- approval of base salary increases for Executive Directors and other members of the Executive Management Team, ensuring these are aligned appropriately both internally and externally;
- review of achievement against corporate goals and approval of the percentage of the bonus pool to be paid out across the Group and a review of achievement against personal goals for Executive Directors;
- approval of the remuneration package for the new Chief Financial Officer, following his appointment to the Board;
- determining the arrangements for outgoing Executive Directors;
- review of the performance conditions for the 2010 Long-Term Incentive Plan (LTIP), including the approval of 100% of the option awards vesting;
- approval of awards under the 2012 LTIP scheme; and
- review of Vectura's remuneration policy for Executive Directors and consultation with shareholders, and approval of overall pay levels for 2015/16 for the Group as a whole.

Audited information

Directors' remuneration – year ended 31 March 2015

The total remuneration of the individual Directors who served during the year is shown below. 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 to 31 March 2015, being £1,460,000 (2013/14: £117,000).

	Base salary[a] £000	Benefits[b] £000	Bonus[c] £000	LTIP[d] £000	Pension entitlements[e] £000	Other[f] £000	SIP/SAYE awards[g] £000	**Total remuneration £000**
Executive Directors								
C P Blackwell	400	2	320	1,144	80	—	5	**1,951**
T M Phillips[1]	275	16	231	316	55	—	5	**898**
A J Oakley[2]	69	—	58	—	14	—	4	**145**
P S Oliver[3]	165	2	108	—	33	278	5	**591**
Non-Executive Directors								
B F J Angelici	120	—	—	—	—	—	—	**120**
J R Brown	52	—	—	—	—	—	—	**52**
S E Foden	52	—	—	—	—	—	—	**52**
N W Warner	52	—	—	—	—	—	—	**52**
	1,185	**20**	**717**	**1,460**	**182**	**278**	**19**	**3,861**

(1) T M Phillips receives benefits of £15,000 (US$24,541 at an average annual exchange rate) relating to US medical and dental insurance. T M Phillips also makes employee contributions towards this plan.

(2) A J Oakley was appointed to the Board on 1 January 2015.

(3) P S Oliver stepped down as Chief Financial Officer and Company Secretary with effect from 1 January 2015.

Directors' remuneration – year ended 31 March 2014

The total remuneration of the individual Directors who served during the year is shown below. 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 2014: £117,000 (2013: £nil).

	Base salary[(a)] £000	Benefits[(b)] £000	Bonus[(c)] £000	LTIP[(d)] £000	Pension entitlements[(e)] £000	Other[(f)] £000	SIP awards[(g)] £000	Total remuneration £000
Executive Directors								
C P Blackwell	337	2	337	—	67	—	5	748
A P Hyland[(1)]	55	1	—	117	11	178	3	365
T M Phillips[(2)(3)(4)]	241	15	241	—	48	91	5	641
P S Oliver[(5)]	150	2	150	—	30	—	2	334
Non-Executive Directors								
B F J Angelici[(6)]	40	—	—	—	—	—	—	40
J P Cashman[(7)]	83	—	—	—	—	—	—	83
J R Brown	45	—	—	—	—	—	—	45
S E Foden	45	—	—	—	—	—	—	45
N W Warner	45	—	—	—	—	—	—	45
	1,041	20	728	117	156	269	15	2,346

(1) A P Hyland stepped down as Chief Financial Officer and Company Secretary, effective from 1 July 2013. Payments made to A P Hyland were disclosed in the prior year remuneration report.

(2) T M Phillips was paid in US$; the amount shown above is converted at the annual average exchange rate of US$1.59/£1.

(3) T M Phillips received benefits of £13,000 (US$21,357 at an average annual exchange rate) relating to US medical and dental insurance. T M Phillips also makes employee contributions towards this plan.

(4) T M Phillips received a one-off relocation allowance of £90,909 during the year; this is shown within "other" remuneration in the single figure above.

(5) P S Oliver was appointed to the Board on 1 July 2013.

(6) B F J Angelici was appointed to the Board on 1 December 2013 and appointed Chairman of the Board on 1 February 2014.

(7) J P Cashman stepped down as Chairman of the Board on 1 February 2014.

Notes to the remuneration table

(a) This is the amount earned in respect of the financial year.

(b) This is the taxable value of benefits paid in respect of the financial year. These benefits typically relate to death, disability and medical insurance. As disclosed in note footnote (3) above, T M Phillips also receives benefits in relation to US medical and dental insurance.

(c) This is the total bonus earned under the annual bonus scheme in respect of the financial year.

(d) The amount shown relates to the market value of LTIP awards that vested during the year. Refer to page 71 for details of LTIP awards which have vested during the year.

(e) UK tax legislation imposes penalty taxes on annual pension contributions where prescribed maximum amounts are exceeded. The Committee has previously determined that impacted Executive Directors would receive pension benefits limited by the prescribed maximum amounts and an additional taxable supplementary cash payment equal to the cost to the Company of the pension benefit foregone. The amount of the allowance awarded to any Executive Director so impacted has been set by the Committee so that there is no additional cost to the Company resulting from this arrangement.

(f) Other payments in 2014/15 relate to payments made under an agreement with P S Oliver; these amounts are explained on page 75 of this report.

(g) This relates to SIP and SAYE which have been granted during the year. The benefit of the SIP awards is calculated as the number of shares awarded multiplied by the share price on the date of the award. The benefit of the SAYE award is calculated as the number of options awarded multiplied by the discount to the market share price on the date the option was awarded. Only A J Oakley subscribed to Vectura's Sharesave Scheme plan during the current financial year.

Additional requirements in respect of the single total figure table (audited information)

Performance-related pay earned in the year

Annual performance bonus

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. The scheme is offered to all staff below Board level and maximum bonus opportunities range from 10% to 75% of salary, depending on grade. Bonus payments are not pensionable.

The Committee has consistently set stretching corporate goals, including goals around revenue generation, development pipeline progress, partnering successes and control of cash expenditure, which are weighted towards goals with the highest corporate significance.

In addition, a significant percentage of the bonus potential is set against challenging personal objectives which are linked to the overall business strategy. Bonuses are limited to a maximum of 100% of basic salary for each Executive Director.

For the year ended 31 March 2015 the performance objectives against which bonus payments were calculated are set out in the table below.

The Committee assessed that a bonus of 80% to 84% (2013/14: 100%) of salary was appropriate for the Executive Directors when judged by the achievement of the metrics in the table below and this was confirmed when looking at a broader picture of the Group's corporate performance over the period.

Performance measure	Weighting	Target	Achievement	Level of bonus awarded as a % of metric	(% of full bonus)	Commentary (full disclosure has been restricted due to commercial sensitivity)
EBITDA progression	10%	37% growth	212% growth	100%	(10%)	
Revenue growth	10%	£52.4m	£58.0m	100%	(10%)	
Cash balance (excluding working capital)	10%	£90.8m	£103.5m	100%	(10%)	
Create strategic growth opportunities	20%	Qualitative assessment		70%	(14%)	Strategic and portfolio review complete; product and technology strategies were developed to optimise commercial value Delivery against agreed plans
Complete successful integration of the Activaero business in line with Vectura's strategic and operational objectives	15%	Qualitative assessment		80%	(12%)	Completed integration of Activaero operations Board approval of product and technology strategy for acquired programmes and technologies
Secure existing pipeline value	15%	Qualitative assessment		80%	(12%)	Continued delivery of pipeline value and programmes progressed according to agreed plans and timelines
Personal objectives	20%	Qualitative assessment		65%–80%	(13%–16%)	Challenging personal objectives were set for all Directors
Total bonus payment as a % of total salary				80%–84%		

LTIP scheme

Scheme interests vested during the year

In 2010, an award of LTIP options was made to the Executive Directors who were in office at this time.

The award was made in two tranches and for the first tranche performance was assessed over a performance period of three years. The performance conditions for the first tranche of this award were considered by the Committee in FY 13/14; the performance conditions were not met and therefore 0% of this award vested.

The performance of the second tranche was assessed over a four-year performance period ending 7 June 2014. During the year, the Committee engaged PricewaterhouseCoopers LLP (PwC) to independently assess Vectura's performance against the LTIP scheme performance conditions. Following this review, it was determined that 100% of the second tranche award made in 2010 would vest.

Measure	Performance target		Actual performance
TSR against FTSE SmallCap Index	Level of comparative performance during the performance period	Percentage of LTIP award released %	Vectura's TSR exceeded that of the upper quartile of the FTSE SmallCap Index over the measurement period. Consequently, up to 100% of the awards were eligible to vest, subject to the average share price requirement being met.
	Below median	—	
	At or above median	30*	
	Upper quartile	100*	
	* Linear vesting between points.		
Average share price	In order for any of the awards to vest, Vectura's average share price for the three months ending 7 June 2014 (vesting date) must be no less than £1.27.		The average share price for the three-month period ended 7 June 2014 was £1.40 and therefore 100% of the award vested in full.

The value of LTIP options which have vested during the year is as follows:

Director	Number of options awarded	Share price at vesting p	Percentage of award vested	Exercise price p	Value of LTIP awards vesting £
C P Blackwell	878,684	130.25	100%	0.025	1,144,486
T M Phillips	242,664	130.25	100%	0.025	316,070
Total	**1,121,348**				**1,460,556**

Scheme interests awarded during the year (audited)

LTIP

On 1 July 2014, the following awards of nominal cost options were granted to the Executive Directors under the 2012 LTIP scheme:

Director	Number of options awarded	Value of award	Share price used to determine level of award p	Face value £	Exercise price p	% that vests at threshold	Vesting date
C P Blackwell	300,751	100%	133.0	400,000	0.025	25%	01/07/2017
T M Phillips	206,766	100%	133.0	275,000	0.025	25%	01/07/2017
P S Oliver	165,413	100%	133.0	220,000	0.025	25%	01/07/2017
Total	**672,930**			**895,000**			

Award levels were calculated based on the closing share price of 133.0p on the trading day immediately preceding the date of grant. The face value of each award shown above is based upon this share price.

The awards granted under the 2012 LTIP scheme on 1 July 2014 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 and 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%

Additional requirements in respect of the single total figure table (audited information) **continued**

Scheme interests awarded during the year (audited) continued

LTIP continued

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 which 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 return 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. Furthermore, the Committee will consult with its major shareholders before exercising its discretion to increase the percentage of any award that vests.

To the extent that the performance conditions are not met in full at the end of the three-year performance period, awards lapse.

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, an error in the calculation of performance against the performance conditions of the plan or any other matter which it deems relevant to this provision.

Free share awards

An award of free shares was made to all employees on 25 June 2014, under Vectura's Share Incentive Plan (SIP). The awards are subject to a three-year holding period and no performance conditions are attached. The awards made to Directors who held office on 25 June 2014 are shown on the table below.

Director	Number of shares awarded	Closing share price on date of grant p	Face value £	% that vests at threshold	Vesting date
C P Blackwell	2,727	132.0	3,600	—	25/06/2017
T M Phillips	2,727	132.0	3,600	—	25/06/2017
P S Oliver	2,727	132.0	3,600	—	25/06/2017
Total	**8,181**		**10,800**		

Matching share awards

On 7 July 2014, the Directors listed below purchased shares through the SIP. For every one share purchased, Vectura awarded a free matching share pursuant to the scheme rules. The value of the matching shares is shown below. The awards are subject to a three-year holding period and no performance conditions are attached.

Director	Number of shares awarded	Closing share price on date of grant p	Face value £	% that vests at threshold	Vesting date
C P Blackwell	1,212	148.5	1,800	—	08/07/2017
T M Phillips	1,212	148.5	1,800	—	08/07/2017
P S Oliver	1,212	148.5	1,800	—	08/07/2017
Total	**3,636**		**5,400**		

Sharesave

Vectura Group plc also operates a Sharesave (SAYE) Share Option Scheme for both employees and Executive Directors. Under this scheme all eligible employees and Executive Directors are invited to subscribe for options, which may be granted at a discount of up to 20% of market value and which vest after three years. The Sharesave Share Option Scheme is an HMRC approved all-employee plan to which performance conditions do not apply.

In March 2015, the following Sharesave options vested:

Director	Number of options awarded	Share price at vesting p	Percentage of award vested	Exercise price p	Value of SAYE awards vesting £
C P Blackwell	18,987	145.75	100%	47.0	18,674
P S Oliver	18,987	145.75	100%	47.0	18,674
Total	**37,974**				**37,348**

In March 2015, the following options were awarded under Vectura's Sharesave Scheme:

Director	Number of options awarded	Share price on invitation date p	Option price p	Face value of award £
A J Oakley	15,734	143.0	114.4	22,500
Total	**15,734**			**22,500**

Gain on exercise of share options

	Date of exercise	Number of options exercised	Exercise price p	Market value at date of exercise p	Gain on exercise of share options £
Executive Directors					
C P Blackwell	29/05/2014	1,023,355	36.00	131.00	972,187
C P Blackwell	29/05/2014	716,966	56.00	131.00	537,724
		1,740,321			1,509,911
T M Phillips	01/07/2014	242,664	0.025	133.00	322,682
T M Phillips	15/01/2015	3,133	0.025	144.50	4,526
T M Phillips	15/01/2015	208,877	95.75	144.50	101,828
		454,674			429,036
P S Oliver	01/07/2014	27,460	44.25	133.00	24,371
P S Oliver	01/07/2014	8,000	71.00	133.00	4,960
		35,460			29,331
Non-Executive Directors					
J R Brown	01/07/2014	238,989	56.00	133.00	184,022
		238,989			184,022
Aggregate gain on exercise of share options					2,152,300

Chris Blackwell exercised a total of 1,740,321 unapproved options during the year. Of the total shares acquired through the exercise, Chris Blackwell sold a total of 1,132,265 shares solely to cover the cost of the exercise including related tax liabilities. Chris Blackwell retained the balance of 608,056 shares.

Trevor Phillips exercised a total of 454,674 options during the year. 242,664 of the options, which were exercised on 1 July 2014, were nominal cost LTIP options. Trevor Phillips sold a total of 109,500 shares solely to cover the cost of the exercise including related tax liabilities. Trevor Phillips retained the balance of 133,164 shares.

On 15 January 2015, Trevor Phillips exercised a further 212,010 unapproved options. Trevor Phillips sold a total of 171,777 shares solely to cover the cost of the exercise including related tax liabilities. Trevor Phillips retained the balance of 40,233 shares.

Paul Oliver exercised a total of 35,460 approved options during the year. Paul Oliver retained all the shares resulting from this exercise.

Additional requirements in respect of the single total figure table (audited information) **continued**

Gain on exercise of share options continued

John Brown exercised a total of 238,989 unapproved options during the year. John Brown sold a total of 159,100 shares solely to cover the cost of exercise, including related tax liabilities. John Brown retained the balance of 79,889 shares. As explained in previous annual reports, the share options awarded to John Brown were made prior to Vectura's public listing in 2004. No further share option awards have been made, or will be made, to Non-Executive Directors. Following John Brown's exercise, there are no Non-Executive Directors that hold share options.

Approved and Unapproved Share Option Plans and the EMI Plan

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

Total pension entitlements

As stated in the notes to the single figure table, UK tax legislation imposes penalty taxes on annual pension contributions where prescribed maximum amounts are exceeded. Impacted Executive Directors receive an additional taxable supplementary cash payment in lieu of pension contributions in excess of any limits.

	Paid into pension fund £000	Received in cash £000	Total pension £000
Executive Directors			
C P Blackwell	40	40	80
T M Phillips	55	—	55
A J Oakley	14	—	14
P S Oliver	33	—	33
	142	**40**	**182**

	Shares owned		LTIP awards subject to performance conditions*			
			Unvested			Vested[6]
	31 March 2015 Ordinary shares of 0.025p each	Value of owned shares as a % of salary	2012 award	2013 award	2014 award	
Executive Directors						
C P Blackwell[1]	**1,306,156**	476%	401,889	458,110	300,751	2,149,833
T M Phillips[2]	**206,027**	109%	410,659	611,246	206,766	—
P S Oliver[3]	**105,727**	71%	34,785	158,489	82,857	—
A J Oakley[4]	**—**	—	—	—	—	—
Non-Executive Directors						
B F J Angelici	**12,903**	—	—	—	—	—
J R Brown[5]	**322,570**	—	—	—	—	—
S E Foden	**11,000**	—	—	—	—	—
N W Warner	**30,477**	—	—	—	—	—

(1) The holding of C P Blackwell includes 64,281 ordinary shares of 0.025p each, which are held in the Vectura Group plc Employee Benefit Trust (Share Incentive Plan).

(2) The holding of T M Phillips includes 21,178 ordinary shares of 0.025p each, which are held in the Vectura Group plc Employee Benefit Trust (Share Incentive Plan).

(3) P S Oliver stepped down from the Board with effect from 1 January 2015. The shareholding shown for P S Oliver is his shareholding as at the date he ceased to be a Director of Vectura Group plc, 1 January 2015. The percentage of his salary held in shares is calculated using the share price as at 31 March 2015 and his annual salary at the point of his departure, £220,000.

(4) A J Oakley was appointed to the Board with effect from 1 January 2015.

(5) The holding of J R Brown includes 20,457 ordinary shares of 0.025p each, which are held through nominees.

(6) Vested LTIP awards relate to outstanding awards granted between 2005 and 2010.

* Details of the performance conditions applicable to the unvested LTIP awards are set out on page 71.

Payments made for loss of office and payments to past Directors (audited information)

On 18 November 2014, it was announced that Paul Oliver would step down as Chief Financial Officer and Company Secretary of Vectura, with effect from 1 January 2015.

The Company entered into an agreement with Paul Oliver and, pursuant to this agreement, Paul Oliver received a payment of £341,622 as settlement of his legal entitlement. This included £234,122 as payment in lieu of salary and benefits during his twelve-month contractual notice period and in respect of his accrued holiday entitlement. The balance of £107,500 was a payment in respect of his pro-rata bonus entitlement for the financial year ended 31 March 2015. This is equivalent to 9/12ths of his bonus opportunity for FY 14/15 and it assumes a 65% payout against the relevant bonus objectives, representing the Committee's assessment of the likely payout under the bonus scheme at the time of his departure. In addition, he will receive a 20% pension contribution and will be provided with insured benefits for the duration of his twelve month notice period.

The amounts paid to Paul Oliver under this agreement relate to his service as a Director and therefore they have been included in the "bonus" and "other" amounts disclosed in the total remuneration table.

In accordance with Vectura's approved remuneration policy, Paul Oliver was treated as a good leaver under the various share schemes that the Group operates. Awards that may vest under the 2012 LTIP scheme will vest at the normal vesting date and be prorated, according to length of service. Awards made under the Group's Share Incentive Plan and Sharesave Scheme will vest in accordance with the rules of those schemes.

Statement of Directors' shareholding and share interests (audited information)

As a direct link between executive remuneration and the interests of shareholders, the Committee has implemented shareholding guidelines for Executive Directors and key senior employees. The guidelines require that Executive Directors build up and maintain an interest in the ordinary shares of the Company that is equal in value to their annual base salary. In assessing compliance with this requirement, the value of the shareholding shown below is assessed using the share price on 31 March 2015, being 145.75p. The value as a percentage of salary has been calculated using base salary as at 31 March 2015, as shown in the single figure remuneration table.

Until this level of shareholding has been attained, 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 equivalent to at least 100% of their base salary.

The Directors who have held office during the year ended 31 March 2015 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 2015 are shown in the table below.

There was no change in the Directors' interests between 31 March 2015 and 19 May 2015, the date of this report.

Share option awards not subject to performance conditions					
Unvested			Vested		
Unapproved scheme	Approved scheme	Sharesave	Unapproved scheme	Approved scheme	Sharesave
—	—	—	906,605	37,383	18,987
—	—	11,718	—	—	—
—	—	—	119,063	—	18,987
—	—	15,734	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—

Unaudited information

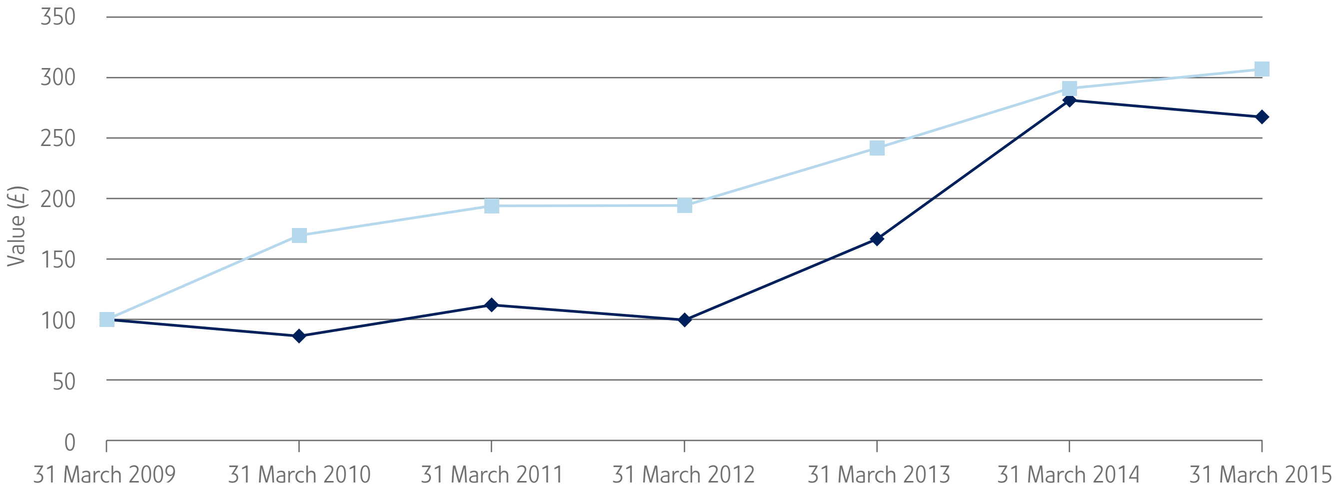
Performance graph and table

The following graph shows Vectura Group plc's cumulative total shareholder return (TSR) over the last six financial years relative to the FTSE SmallCap Index. 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.

TSR is defined as the return on investment obtained from holding a company's shares over a period. It includes dividends paid, the change in the capital value of the shares and any other payments made to or by shareholders within the period.

Total shareholder return

Source: Thomson Reuters



This graph shows the value, by 31 March 2015, of £100 invested in Vectura Group PLC on 31 March 2009 compared with the value of £100 invested in the FTSE Small Cap Index. The other points plotted are the values at intervening financial year ends.

◆ Vectura Group plc ■ FTSE Small Cap

This graph shows the value, by 31 March 2015, of £100 invested in Vectura Group plc on 31 March 2009, compared with the value of £100 invested in the FTSE SmallCap Index. The other points plotted are the values at intervening financial year ends.

Aligning pay with performance

Chief Executive remuneration compared with annual growth in TSR:

	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	**2014/15 £000**
Annual growth in TSR (%)	(13.8)	29.8	(11.1)	67.3	68.9	**(4.9)**
Salary, pensions and benefits	384	383	396	401	411	**487**
Annual performance bonus	150	196	174	193	337	**320**
Long-Term Incentive Plan vesting	177	90	401	—	—	**1,144**
Chief Executive total remuneration	711	669	971	594	748	**1,951**
Actual bonus as a % of the maximum	47%	62%	53%	59%	100%	**80%**
Actual share award vesting as a % of the maximum[1]	83.3%	62.9%	100%	0%	0%	**100%**

(1) No LTIP awards vested during FY 12/13 or FY 13/14.

Percentage change in remuneration of the Chief Executive

Set out below is the change over the prior period in base salary, benefits, pension and annual performance bonus of the Chief Executive and the Group's employees:

	2014/15 £000	Chief Executive Percentage change (FY 13/14 v FY 14/15)	All employees Percentage change (FY 13/14 v FY 14/15)
Salary	400	19%	4%
Benefits	2	0%	0%
Bonus	320	(20%)	(15%)

Relative importance of Executive Director remuneration

	FY 14/15 £m	FY 13/14 £m	Change £m
Total employee remuneration	**18.3**	13.4	4.9
Revenue	**58.0**	36.5	21.5
Research and development expenditure	**36.1**	28.0	8.1
(Loss)/profit before tax	**(6.2)**	(4.8)	(1.4)
Distributions to shareholders	**—**	—	—

Statement of shareholder voting at 2014 AGM

At last year's AGM held on 19 September 2014, votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows:

	For (including discretionary votes)	Against	Total votes cast (excluding votes withheld)	Votes withheld[1]	Total votes cast (including withheld votes)
To approve the Directors' remuneration policy	298,881,466	5,521,975	304,403,441	4,655,592	309,059,033
% of votes cast	98.19	1.81	100		
To approve the Remuneration report	199,895,156	107,436,092	307,331,248	1,727,785	309,059,033
% of votes cast	65.04	34.96	100		

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

In the forthcoming year, the Committee will continue to engage with major shareholders and their representative bodies regarding the development and implementation of Vectura's remuneration policy.

Statement of implementation of remuneration policy in the following financial year

Base salaries

As disclosed last year, the Committee planned to reposition Chris Blackwell's salary at a broadly mid-market level over two years, taking into account his performance in the role and the Company's performance as a whole. In light of strong corporate and personal performance, the Committee decided to complete this review by increasing his salary by 7% with effect from 1 April 2015. As a result, Chris Blackwell's salary increased from £400,000 to £428,000.

The Committee determined that a 2.5% increase is appropriate for the roles of Chief Operating Officer and Chief Financial Officer. This increase is below the overall increase of 3.3% across the wider workforce.

Non-Executive Directors' fees

Non-Executive fees remain unchanged at £52,000 for the forthcoming year. Per-Olof Andersson will receive fees of £44,000 per annum, plus an allowance of £2,000 for each Board meeting requiring his transatlantic travel.

The Chairman's fee has been repositioned to £130,000 per annum.

Bonus

The performance targets set for the performance bonus for future years will be disclosed in accordance with the policy set out on pages 61 to 67 of this report.

Performance measures will include targets relating to creating strategic growth opportunities, securing existing pipeline value and achieving financial growth.

LTIP

It is currently intended that the 2015 LTIP awards will be granted shortly after the Company's AGM in September 2015.

The Remuneration Committee's philosophy is that the remuneration arrangements for the Group as a whole should support value creation for shareholders over the longer term and be subject to challenging performance conditions measured over a period of at least three years and ideally longer. We believe that long-term incentives should comprise the most significant element of the remuneration package, with the other elements of remuneration set at a mid-market level. Overall, the Committee believes that Vectura's Long-Term Incentive Plan should be capable of delivering exceptional rewards, but only for exceptional performance.

During the forthcoming year, the Committee will continue to review Vectura's existing long-term incentive arrangements to ensure that they continue to be aligned to shareholder interests and Vectura's remuneration philosophy, as outlined above. The Committee will continue to engage with major shareholders and their representative bodies regarding the development and implementation of Vectura's remuneration policy in respect of long-term incentives and variable pay arrangements.

On behalf of the Board

Dr Susan Foden
Chair of the Remuneration Committee
19 May 2015

The following matters are reported by the Directors in accordance with the Companies Act 2006 requirements in force at the date of this Annual Report and Accounts.

Principal activity

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

Review of business

The consolidated income statement for the year ended 31 March 2015 is set out on page 86. Key events during the past year are described in the Strategic report; highlights of FY 14/15 are shown on pages 1 to 3 and are referred to in more detail in the Chairman's statement, the Chief Executive's statement and the Financial review. These reports, together with the Chairman's introduction, the Corporate governance statement, the Audit Committee report, the Nomination Committee report and the Remuneration Committee report, are incorporated into this report by reference and should be read as part of this report.

The Group's risk management process and the Board's assessment of the key risks and uncertainties facing the business are set out on pages 20 to 25. During the year, the Board has reviewed the risk management policies in place, as summarised in the Corporate governance statement on pages 47 to 52. Key performance indicators are set out on pages 18 and 19.

Group's result and dividend

The consolidated profit after tax for the year was £3.7m (2013/14: loss of £2.3m). The Directors do not recommend the payment of a dividend (2013/14: £nil).

Financial instruments

The policy and practice of the Group with regard to financial instruments is disclosed in note 21 of the financial statements.

Directors

The Directors listed on pages 44 to 45 served throughout the year with the exception of Andrew J Oakley and Dr Per-Olof Andersson.

Andrew J Oakley was appointed as Chief Financial Officer and Company Secretary on 1 January 2015 and Dr Per-Olof Andersson was appointed as a Non-Executive Director with effect from 1 April 2015.

In addition, Paul Oliver served as an Executive Director during the financial year from 1 April 2014 to 31 December 2014.

Brief biographical details of each Director are set on pages 44 to 45.

Details of Directors' remuneration and their interests in the share capital of the Company are given in the Remuneration report. None of the Directors has any interest in any contract of significance to the financial statements.

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 report on pages 47 to 52.

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.

Other than the indemnity provisions described above, none of the Directors had a material interest in any contract of significance to which the Company or any of its subsidiary undertakings was a party during the year ended 31 March 2015 and up to the date of the publication of this report.

Shares

Share capital

At 15 May 2015, the nearest practical date to the date of this report, the Company had a total of 3,244 ordinary shareholders and 404,623,173 ordinary shares in issue.

Rights and obligations

The rights and obligations attaching to the ordinary shares are set out in the Company's Articles of Association ("the Articles"). The Articles may only be amended by special resolution of the members of the Company. A copy of the Articles is available upon request.

Share price

The mid-market share price as shown by the London Stock Exchange Daily Official List on 31 March 2015 was 145.75p. The mid-market share price ranged from 154.75p to 115.00p during the year to 31 March 2015. The average share price for the period was 135.55p.

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 22. 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 74.8% 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 23. 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.

Significant shareholdings

On 15 May 2015, the Directors were notified of the following substantial holdings in the Company's share capital:

	Number of shares '000	%
Invesco Asset Management Limited	58,256	14.4%
Legal & General Investment Management Limited	34,100	8.43%
Baillie Gifford & Co	26,372	6.52%
Neptune Investment Management Limited	20,760	5.13%
OppenheimerFunds Inc.	19,000	4.70%
Franklin Resources Inc.	18,955	4.86%
AXA SA	16,691	4.12%

Employee engagement

The Group's policies on the environment, health and safety, ethical and social issues and its employees are disclosed in the Strategic review; refer to pages 36 to 39.

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 (2013/14: £nil).

Going concern

The accounts have been prepared on the going concern basis. Although certain 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 profit after tax of £3.7m for the financial year ended 31 March 2015 (2013/14: loss after tax of £2.3m) and had £90.0m of cash and cash equivalents as at 31 March 2015 (2014: £81.7m). 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. 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 Covington & Burling LLP, 265 Strand, London WC2R 1BH on 24 September 2015 at 12.00 noon. Details of the business to be transacted at the forthcoming AGM will be given in a separate circular to shareholders.

Auditor

Deloitte LLP has expressed a willingness to continue in office as auditor and a resolution to reappoint 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 44 and 45. 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 section 418 of the Companies Act 2006.

By order of the Board

Andrew J Oakley
Company Secretary
19 May 2015

STICKING TO OUR VALUES

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, IAS 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 UK 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 IFRSs 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;
- the Strategic 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 which they face; and
- the Annual Report and financial statements, taken as whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Andrew J Oakley
Director
19 May 2015

Opinion on the financial statements of Vectura Group plc

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 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (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.

The financial statements 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 30. The financial reporting framework that has been applied in their preparation is applicable law and 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.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the Group financial statements, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the Group 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.

Going concern

As required by the Listing Rules we have reviewed the Directors' statement contained on page 79 that the Group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below, which are unchanged from the prior year, are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Acquisition accounting	
The Group acquired Activaero GmbH on 18 March 2014 for a total consideration of €130m. Management exercised judgement in the prior year in determining their provisional valuation of the intangible assets, land and buildings, liabilities and resultant goodwill associated with the acquisition. In the current year management has finalised its provisional acquisition accounting by assessing any facts and circumstances which arose subsequent to the initial acquisition accounting which might indicate an adjustment was required within one year from the date of acquisition. This process has resulted in material adjustments to the allocation of the fair value of the intangible assets acquired between different product categories. The key consideration relates to when the information was obtained, whether it meets the requirements of IFRS 3 for adjustment to the initial acquisition accounting and the assumptions used in the revised cash flows. See notes 1 and 29 to the financial statements, where the key assumptions around the acquisition accounting have been disclosed.	We focused our audit work on the key judgements taken by management around the finalisation of the valuation of intangible assets. We have reviewed the forecasts for the relevant products and held discussions with operational management to validate the facts surrounding the revisions made to the acquisition accounting. In conjunction with the firm's valuation experts, we have critically assessed and challenged management on the most recent information presented in respect of the acquired intellectual property to assess whether the information was obtained within the twelve month window prescribed by IFRS 3, and that it reflected conditions that existed at the date of acquisition, and is not indicative of new information that would not result in adjustment to the provisional acquisition accounting.
Goodwill and intangible asset impairment	
The carrying value of goodwill (31 March 2015: £56.8m; 31 March 2014: £57.8m) and intangible assets (31 March 2015: £104.3m; 31 March 2014: £138.9m) relies on assumptions and judgements made by management concerning the estimated future cash flows from a combination of early and late-stage research and development programmes, future royalty receipts and regulatory milestones; associated discount rates; and clinical commercial risk and market growth rates. Management have performed an impairment review under IAS 36. See notes 1 and 9 to the financial statements, where the key assumptions used in their impairment model have been disclosed.	We assessed management's assumptions used in its impairment model for goodwill, including: • the cash flow projections by discussing with senior operational management and considering the consistency of the forecasts with clinical and licensing partner data and contractual agreements; • discount rates by engaging our valuation specialists to independently recalculate the group's weighted average cost of capital (WACC) and then performing an assessment of the risk adjustments applied by management; and • sensitivity analysis of management's forecasts including assessing the impact of applying further sensitivities.

Our assessment of risks of material misstatement continued

Risk	How the scope of our audit responded to the risk
Revenue recognition The Group's two principal revenue streams are licence milestones and royalty income: • recognition of revenue on product and technology licence milestones (31 March 2015: £26.4m; 31 March 2014: £17.6m) can be subjective and management exercises judgement in determining whether the Group has fulfilled all of its performance obligations, such as a regulatory approval or transfer of intellectual property, under that contract and therefore the relevant period over which to recognise revenue. This is a material judgement that impacts the financial statements; and • royalty income (31 March 2015: £25.2m; 31 March 2014: £16.3m) needs to be accrued for at year end based on management's estimate of the licence partners' global sales in the final quarter or statements received from the licence partners. This requires management to exercise judgement in ensuring all royalty streams are recognised as revenue in the year, which has a material impact on the financial statements. See notes 1 and 2 to the financial statements, where the key assumptions in relation to revenue recognition have been disclosed.	We reviewed the key contracts for the Group and management's calculations for each milestone to assess consistency with the Group's accounting policies and compliance with IAS 18 'Revenue'. We challenged management's assumptions through discussions with the development team and review of supporting documentation and regulatory announcements to assess whether the period of recognition for each milestone was appropriate. Our audit work focused on the royalty income accrued in the final quarter of the year and we reviewed a range of sources, such as third-party announcements, news feeds, royalty statements and post year end correspondence with the licensing partners to challenge the completeness of management's estimates around the amount accrued.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 54 and 55.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £2m (2014: £2m), which is approximately 1% of equity (2014: 1%). Equity has been used as the basis for determining materiality as it represents the most stable aspect of the business, with year on year fluctuations seen in revenues and loss before tax as the Group progresses its R&D programmes; equity also reflects the Group's focus on cash generation and cash management.

We agreed with the Audit Committee that we would report to the Committee all misstatements identified in excess of £40,000 (2014: £40,000), as well as misstatements below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on that assessment, we focused our Group audit scope on the UK businesses which are managed from Chippenham, UK. These were subject to a full scope audit by the Group audit team using component materialities which were lower than Group materiality. Component materialities range from £1m to £1.9m. The UK businesses account for 100% (2014: 99%) of the components with net assets, 95% (2014: 99%) of the Group's revenue and 100% of the components with a profit before tax (2014: 85% of the Group's loss before tax).

In addition, audit procedures were performed by the Group audit team in respect of the German business using a component materiality which is lower than Group materiality. Including goodwill and intangible assets this business accounts for 99% of the components with net liabilities (2014: 1% of Group's net assets), 5% (2014: 1%) of the Group's revenues and 96% of the components with a loss before tax (2014: 15% of the Group's loss before tax).

At the parent entity level we also tested the consolidation process and performed analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and 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

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- 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 financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, 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. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

Matters on which we are required to report by exception continued

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

David Hedditch

David Hedditch (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Bristol, United Kingdom
19 May 2015

CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2015

	Note	2015 £m	Restated[1] 2014 £m
Revenue	2	**58.0**	36.5
Cost of sales		**(2.4)**	(1.0)
Gross profit		**55.6**	35.5
Research and development expenses		**(36.1)**	(28.0)
Other administrative expenses		**(4.5)**	(3.4)
Non-recurring acquisition costs		**—**	(2.5)
Amortisation of intangible assets		**(20.9)**	(6.9)
Share-based compensation		**(1.1)**	(0.9)
Total administrative expenses		**(26.5)**	(13.7)
Operating loss	5	**(7.0)**	(6.2)
Presented as:			
EBITDA[2]		**16.2**	5.2
Non-recurring acquisition costs		**—**	(2.5)
Amortisation of intangible assets		**(20.9)**	(6.9)
Depreciation of assets		**(1.2)**	(1.1)
Share-based compensation		**(1.1)**	(0.9)
Operating loss		**(7.0)**	(6.2)
Investment income	4	**0.5**	1.6
Finance gains/(costs)	4	**1.7**	(0.2)
Share of result of joint venture	13	**(1.4)**	—
Loss before taxation		**(6.2)**	(4.8)
Taxation	7	**9.9**	2.5
Profit/(loss) after taxation attributable to equity holders of the Company		**3.7**	(2.3)
Earnings/(loss) per ordinary share: basic	8	**0.9p**	(0.7p)
Earnings/(loss) per ordinary share: diluted	8	**0.9p**	(0.7p)
Adjusted earnings per ordinary share: basic	8	**4.0p**	1.5p
Adjusted earnings per ordinary share: diluted	8	**3.9p**	1.5p

(1) Restated to reflect the final allocation of the cost of the acquisition of Activaero GmbH (see note 29).

(2) Earnings before investment income, finance gains/(costs), tax, depreciation, amortisation, share-based compensation and adjusted for non-recurring items.

All results are derived from continuing activities.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2015

	Note	2015 £m	Restated[1] 2014 £m
Profit/(loss) after taxation attributable to equity holders of the Company		**3.7**	(2.3)
Other comprehensive loss:			
Items that may be subsequently reclassified through the income statement			
Foreign currency translation differences for foreign operation	22f	**(11.4)**	(1.6)
Other comprehensive expense		**(11.4)**	(1.6)
Total comprehensive loss attributable to equity holders of the Company		**(7.7)**	(3.9)

(1) Restated to reflect the final allocation of the cost of the acquisition of Activaero GmbH (see note 29).

	Note	Group 2015 £m	Group Restated[1] 2014 £m	Company 2015 £m	Company 2014 £m
Assets					
Goodwill	9	**56.8**	57.8	**2.0**	2.0
Intangible assets	10	**104.3**	138.9	**—**	—
Property, plant and equipment	11	**11.5**	11.6	**—**	—
Investments in subsidiary undertakings	12	**—**	—	**234.3**	233.8
Investment in joint venture	13	**1.7**	3.4	**—**	—
Other receivables	14	**0.4**	0.4	**—**	—
Non-current assets		**174.7**	212.1	**236.3**	235.8
Inventories	15	**0.9**	1.0	**—**	—
Trade and other receivables	16	**27.9**	13.7	**—**	—
Amounts due from subsidiary undertakings	17	**—**	—	**89.2**	86.7
Cash and cash equivalents	21	**90.0**	81.7	**—**	—
Current assets		**118.8**	96.4	**89.2**	86.7
Total assets		**293.5**	308.5	**325.5**	322.5
Liabilities					
Trade and other payables	18	**(20.6)**	(17.4)	**—**	—
Deferred income	19	**(0.2)**	(0.1)	**—**	—
Deferred consideration	29	**(25.6)**	—	**(25.6)**	—
Current liabilities		**(46.4)**	(17.5)	**(25.6)**	—
Deferred income	19	**(1.5)**	(1.7)	**—**	—
Deferred consideration	29	**—**	(28.7)	**—**	(28.7)
Deferred tax liabilities	20	**(23.7)**	(33.9)	**—**	—
Non-current liabilities		**(25.2)**	(64.3)	**—**	(28.7)
Total liabilities		**(71.6)**	(81.8)	**(25.6)**	(28.7)
Net assets		**221.9**	226.7	**299.9**	293.8
Equity					
Share capital	22a	**0.1**	0.1	**0.1**	0.1
Share premium	22b	**99.2**	97.4	**99.2**	97.4
Special reserve	22c	**8.2**	8.2	**8.2**	8.2
Other reserve	22d	**124.9**	124.9	**123.7**	123.7
Share-based compensation reserve	22e	**14.9**	13.8	**14.9**	13.8
Translation reserve	22f	**(13.0)**	(1.6)	**—**	—
Retained (loss)/profit		**(12.4)**	(16.1)	**53.8**	50.6
Total equity		**221.9**	226.7	**299.9**	293.8

(1) Restated to reflect the final allocation of the cost of the acquisition of Activaero GmbH (see note 29).

The financial statements of Vectura Group plc, registered number 03418970, were approved and authorised for issue by the Board of Directors on 19 May 2015 and were signed on its behalf by:

Dr C P Blackwell
Director

A J Oakley
Director

CASH FLOW STATEMENT
for the year ended 31 March 2015

	Group		Company	
	2015 £m	Restated[1] 2014 £m	2015 £m	2014 £m
Operating loss	(7.0)	(6.2)	(1.0)	(2.6)
Depreciation and amortisation	22.1	8.0	—	—
Share-based compensation	1.1	0.9	—	—
Decrease in inventories	0.1	0.2	—	—
Increase in trade and other receivables	(14.2)	(3.9)	—	—
Increase in inter-company receivables	—	—	(2.5)	(9.6)
Increase/(decrease) in payables	0.6	(4.6)	—	—
(Decrease)/increase in deferred income	(0.1)	0.4	—	—
Exchange movements	1.8	(0.2)	3.5	—
Net cash inflow/(outflow) from operations	4.4	(5.4)	—	(12.2)
Research and development tax credits received	3.6	4.7	—	—
Net cash inflow/(outflow) from operating activities	8.0	(0.7)	—	(12.2)
Cash flows from investing activities				
Interest received	0.4	0.4	—	—
Purchase of property, plant and equipment	(1.4)	(2.3)	—	—
Disposal of investments	—	1.2	—	—
Acquisition of Activaero GmbH	(0.5)	(37.8)	—	(37.8)
Non-recurring acquisition costs	—	(2.5)	—	—
Net cash outflow from investing activities	(1.5)	(41.0)	—	(37.8)
Net cash inflow/(outflow) before financing activities	6.5	(41.7)	—	(50.0)
Cash flows from financing activities				
Proceeds from issue of ordinary shares	1.8	55.3	—	52.0
Costs of raising equity	—	(2.0)	—	(2.0)
Net cash inflow from financing activities	1.8	53.3	—	50.0
Increase in cash and cash equivalents	8.3	11.6	—	—
Cash and cash equivalents at beginning of year	81.7	70.1	—	—
Cash and cash equivalents at end of year	90.0	81.7	—	—

(1) Restated to reflect the final allocation of the cost of the acquisition of Activaero GmbH (see note 29).

Financial statements

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2015

Group	Share capital £m	Share premium £m	Special reserve £m	Other reserve £m	Share-based compensation reserve £m	Translation reserve £m	Retained (loss)/profit £m	Restated[1] Total equity £m
At 1 April 2013	0.1	2.8	8.2	124.9	12.9	—	(13.8)	135.1
Loss for the year	—	—	—	—	—	—	(2.3)	(2.3)
Other comprehensive loss	—	—	—	—	—	(1.6)	—	(1.6)
Total comprehensive loss	—	—	—	—	—	(1.6)	(2.3)	(3.9)
Share-based compensation	—	—	—	—	0.9	—	—	0.9
Shares issued on acquisition	—	41.3	—	—	—	—	—	41.3
On placement of new shares	—	52.0	—	—	—	—	—	52.0
Costs of raising equity	—	(2.0)	—	—	—	—	—	(2.0)
Exercise of share options	—	3.3	—	—	—	—	—	3.3
At 31 March 2014	0.1	97.4	8.2	124.9	13.8	(1.6)	(16.1)	226.7
Profit for the year	—	—	—	—	—	—	3.7	**3.7**
Other comprehensive loss	—	—	—	—	—	(11.4)	—	**(11.4)**
Total comprehensive loss	—	—	—	—	—	(11.4)	3.7	**(7.7)**
Share-based compensation	—	—	—	—	1.1	—	—	**1.1**
Exercise of share options	—	1.8	—	—	—	—	—	**1.8**
At 31 March 2015	**0.1**	**99.2**	**8.2**	**124.9**	**14.9**	**(13.0)**	**(12.4)**	**221.9**

(1) Restated to reflect the final allocation of the cost of the acquisition of Activaero GmbH (see note 29).

Company	Share capital £m	Share premium £m	Special reserve £m	Other reserve £m	Share-based compensation reserve £m	Translation reserve £m	Retained profit £m	Total equity £m
At 1 April 2013	0.1	2.8	8.2	123.7	12.9	—	52.8	200.5
Loss for the year and total comprehensive loss	—	—	—	—	—	—	(2.2)	(2.2)
Share-based compensation	—	—	—	—	0.9	—	—	0.9
Shares issued on acquisition	—	41.3	—	—	—	—	—	41.3
On placement of new shares	—	52.0	—	—	—	—	—	52.0
Costs of raising equity	—	(2.0)	—	—	—	—	—	(2.0)
Exercise of share options	—	3.3	—	—	—	—	—	3.3
At 31 March 2014	0.1	97.4	8.2	123.7	13.8	—	50.6	293.8
Profit for the year and total comprehensive income	—	—	—	—	—	—	3.2	**3.2**
Share-based compensation	—	—	—	—	1.1	—	—	**1.1**
Exercise of share options	—	1.8	—	—	—	—	—	**1.8**
At 31 March 2015	**0.1**	**99.2**	**8.2**	**123.7**	**14.9**	**—**	**53.8**	**299.9**

1. Significant accounting policies

General information

Vectura Group plc is a public limited company incorporated in the United Kingdom under the Companies Act. The address of the registered office and principal place of business is given on the final page of this Annual Report. The nature of the Group's operations and its principal activities are set out in the Strategic report on pages 1 to 42.

The Company's ordinary shares are traded on the London Stock Exchange (LSE) under the ticker VEC.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out below.

Adoption of new and revised standards

The following amendments to International Financial Reporting Standards (IFRSs) and a new interpretation issued by the International Accounting Standards Board (IASB) have been applied by the Group in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements.

- Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities
  The Group has adopted the amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off", "simultaneous realisation and settlement".
- Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets
  The Group has adopted the amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets for the first time in the current year. The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives have been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 – Fair Value Measurement.

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 9 – Financial Instruments
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception
- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 15 – Revenue from Contracts with Customers
- Amendments to IAS 1 – Disclosure Initiative
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions
- Amendments to IAS 27 – Equity Method in Separate Financial Statements
- Annual IFRS Improvements Process 2010–2012 Cycle (December 2013): Amendments to: IFRS 2 – Share-based Payments, IFRS 3 – Business Combinations, IFRS 8 – Operating Segments, IFRS 13 – Fair Value Measurement, IAS 16 – Property, Plant and Equipment, IAS 24 – Related Party Disclosures and IAS 38 – Intangible Assets
- Annual IFRS Improvements Process 2011–2013 Cycle (December 2013): Amendments to: IFRS 1 – First-time Adoption of International Financial Reporting Standards, IFRS 3 – Business Combinations, IFRS 13 – Fair Value Measurement and IAS 40 – Investment Property
- Annual IFRS Improvements Process 2012–2014 Cycle (September 2014): Amendments to: IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 – Financial Instruments: Disclosures, IAS 19 – Employee Benefits and IAS 34 – Interim Financial Reporting

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 15 is effective for annual periods beginning on or after 1 January 2017 and replaces all existing revenue requirements in IFRS. The core principle is that revenue will be recognised at an amount reflecting the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. It may have an impact on revenue recognition and related disclosures.
- IFRS 9 will impact both the measurement and disclosures of financial instruments.

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.

1. Significant accounting policies continued

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 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 2015 is £3.2m (2013/14: £2.2m loss).

The financial statements have been prepared on the historical cost basis, revised for use of fair values where required by applicable IFRSs. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if a market participant would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value measurements and/or disclosures in these consolidated financial statements are determined on such basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

The principal accounting policies adopted are set out below.

Going concern

The accounts have been prepared on the going concern basis. Although certain 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 profit after tax of £3.7m for the financial year ended 31 March 2015 (2013/14: £2.3m loss) and had £90.0m of cash and cash equivalents as at 31 March 2015 (2014: £81.7m). 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. 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 entities controlled by the Company (its subsidiaries) as at 31 March each year. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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. 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.

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.

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:

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.

1. Significant accounting policies continued

Revenue recognition continued

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 the above criteria have been met. Milestone payments relating to scientific or technical achievements are recognised as income when the milestone is accomplished.

Development Services

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 consolidated income statement 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.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the date of acquisition that, if known, would have affected the amounts recognised as of that date.

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 consolidated income statement. 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 fair value. 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.

1. Significant accounting policies continued

Intangible assets continued

Development expenditure on internally developed intangible assets is taken to the consolidated income statement 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, in accordance with IAS 38:

- 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 three and ten 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 – twenty years

Laboratory equipment – three to seven years

Office and IT equipment – three 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.

Assets are classified as "under the course of construction" until such a time as the asset is capable of being used in the manner intended.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1. Significant accounting policies continued

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 consolidated income statement 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.

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.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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.

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.

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.

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.

1. Significant accounting policies continued

Leasing

Operating leases and the annual rentals are charged to the consolidated income statement 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.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at the exchange rate prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

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.

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 consolidated income statement.

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 consolidated income statement 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.

1. Significant accounting policies continued

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), 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 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.

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 IFRSs, 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 estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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 determination of the fair value of acquired intangible assets, the measurement and review for impairment of definite and indefinite-life intangible assets (goodwill), revenue recognition and the treatment of research and development expenditure in line with the relevant accounting policy.

Estimation uncertainty – Intangible assets

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. In determining the fair value of acquired intangibles, the Group uses market-observable data to the extent that is available. To the extent that such inputs are not available, the Group works closely with external valuation experts to establish the appropriate valuation techniques and inputs to the model.

Estimation uncertainty – Impairment of goodwill

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 value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

Critical accounting judgements – Revenue recognition

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.

Critical accounting judgements – Research and development costs.

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.

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 research, development and commercialisation of novel therapeutic products and drug delivery systems for human use.

Revenue by category	2015 £m	2014 £m
Royalties	**25.2**	16.3
Product licensing	**19.8**	13.3
Technology licensing	**6.6**	4.3
Development services	**3.9**	1.7
Device sales	**2.5**	0.9
	58.0	36.5
Investment income:		
Total investment income (note 4)	**0.5**	1.6
Total revenue per IAS 18	**58.5**	38.1

Revenue by customer location	2015 £m	2014 £m
United Kingdom	**6.0**	2.8
Rest of Europe	**29.0**	17.4
United States of America	**23.0**	16.2
Rest of World	**—**	0.1
	58.0	36.5

Information about major customers

Revenue earned from the Group's major customers was as follows: Customer A – £26.4m (2013/14: £14.9m), Customer B – £12.4m (2013/14: £12.9m), and Customer C – £5.8m (2013/14: £2.5m).

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 Executive Management Team is the Group's chief operating decision-making body, as defined by IFRS 8, and all significant operating decisions are taken by the Executive Management Team. In assessing performance, the Executive Management 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 and Germany. Revenues from external customers in the United Kingdom were £54.3m (2013/14: £36.2m) and non-current assets originating in the United Kingdom were £174.4m (2014: £179.3m).

4. Investment income and finance gains/(costs)

	2015 £m	2014 £m
Investment income:		
Income from sale of investments	**0.1**	1.2
Interest receivable on bank deposits and similar income	**0.4**	0.4
Total investment income	**0.5**	1.6
Finance gains/(costs):		
Foreign exchange gains/(losses)	**1.8**	(0.2)
Finance costs	**(0.1)**	—
Total finance gains/(costs)	**1.7**	(0.2)

5. Operating loss

Operating loss is the result for the Group before investment income, finance gains/(costs) and taxation, and is stated after charging:

	2015 £m	Restated(1) 2014 £m
Amortisation of intangible assets	20.9	6.9
Depreciation of property, plant and equipment	1.2	1.1
Share-based compensation	1.1	0.9
Cost of inventories recognised as expense	0.3	0.3
Staff costs (note 6)	18.3	13.4
Non-recurring acquisition costs	—	2.5
Operating lease rentals:		
– land and buildings	0.5	0.5

(1) Restated to reflect the final allocation of the cost of the acquisition of Activaero GmbH (see note 29).

Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2015 £000	2014 £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 its associates for other services to the Group:		
– the audit of the Company's subsidiaries	72	63
Total audit fees	92	83
Audit-related assurance services	17	15
Taxation compliance services	4	4
Other taxation advisory services	—	20
Other services	—	315
Total non-audit fees	21	354
Total fees	113	437

Details of the Group's policy on the use of the auditor for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity was safeguarded are set out in the Audit Committee report on page 56. No services were provided pursuant to contingent fee arrangements.

In the prior year, other services included financial due diligence work to support the acquisition of Activaero GmbH.

6. Employees

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

	2015 Number	2014 Number
Research and development	228	199
Business development and administration	15	16
	243	215

6. Employees continued

The aggregate remuneration comprised:

	2015 £m	2014 £m
Wages and salaries	15.4	11.5
Social security costs	2.2	1.3
Other pension costs	0.7	0.6
	18.3	13.4

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 £1.1m (2013/14: £0.9m).

The ultimate parent company, Vectura Group plc, had no employees during the years ended 31 March 2015 and 31 March 2014.

7. Taxation

The major components of the income tax credit for the years ended 31 March 2015 and 31 March 2014 were as follows:

	2015 £m	Restated(1) 2014 £m
Research and development tax credits:		
– current year	2.5	3.3
– in respect of prior years	0.6	0.9
Decrease/(increase) in net deferred tax liability	6.8	(1.7)
Total	9.9	2.5

(1) Restated to reflect the final allocation of the cost of the acquisition of Activaero GmbH (see note 29).

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 consolidated income statement as follows:

	2015 £m	Restated(1) 2014 £m
Loss before tax	(6.2)	(4.8)
Loss before tax multiplied by standard rate of UK corporation tax of 21% (2013/14: 23%)	(1.3)	(1.1)
Effects of:		
Expenses not deductible for tax purposes	0.2	0.2
Unrecognised tax losses carried forward	1.1	0.9
(Decrease)/increase in net deferred tax liability	(6.8)	1.7
Research and development tax credits:		
– current year	(2.5)	(3.3)
– in respect of prior years	(0.6)	(0.9)
Total tax credit for the year	(9.9)	(2.5)

(1) Restated to reflect the final allocation of the cost of the acquisition of Activaero GmbH (see note 29).

In March 2014 the UK government announced the main rate of UK corporation tax would reduce to 20% with effect from 1 April 2015. This change has been substantively enacted and therefore UK deferred tax assets and liabilities are recognised at a rate of 20% (2014: 20%).

Factors that may affect future tax charges are set out in note 20.

8. Earnings/(loss) per ordinary share

The calculation of earnings/(loss) per share is based on the following data:

	2015	Restated[1] 2014
Profit/(loss) after tax for the year (£m)	3.7	(2.3)
EBITDA for the year (£m)	16.2	5.2
Weighted average number of ordinary shares – basic earnings per share (m)	401.6	337.8
Effect of dilutive potential ordinary shares (share options) (m)	10.0	10.8
Weighted average number of ordinary shares – diluted earnings per share (m)	411.6	348.6
Earnings/(loss) per ordinary share		
Basic	0.9p	(0.7p)
Diluted	0.9p	(0.7p)
EBITDA per ordinary share		
Basic	4.0p	1.5p
Diluted	3.9p	1.5p

(1) Restated to reflect the final allocation of the cost of the acquisition of Activaero GmbH (see note 29).

9. Goodwill

Group	2015 £m	Restated[1] 2014 £m
Cost:		
At 1 April	57.8	49.6
Recognised on acquisition of a subsidiary (note 29)	—	8.3
Effect of movements in foreign exchange	(1.0)	(0.1)
At 31 March	56.8	57.8
Net book value:		
At 1 April	57.8	49.6
At 31 March	56.8	57.8

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

Group	2015 £m	Restated[1] 2014 £m
Co-ordinated Drug Development Limited (since renamed Vectura Limited)	1.5	1.5
Vectura Delivery Devices Limited	0.5	0.5
Innovata Limited	47.6	47.6
Activaero GmbH[2]	7.2	8.2
	56.8	57.8

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 the likely period in which cash flows could be expected. 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 10.5% to 11.5%. Following the acquisition of Activaero GmbH in March 2014, and for the purpose of impairment testing of goodwill, the Group is split into two CGUs, being the Vectura CGU and the Activaero CGU.

9. Goodwill continued

Goodwill has been allocated to the following cash-generating units:

	2015 £m	Restated[1] 2014 £m
Vectura CGU	**49.6**	49.6
Activaero CGU[2]	**7.2**	8.2
	56.8	57.8

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.

Company	£m
Carrying amount:	
At 31 March 2014 and **31 March 2015**	**2.0**

The goodwill in the Company arose on the acquisition of the Centre for Drug Formulation Studies, an unincorporated entity, in 1999. Amortisation of £0.7m 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.

(1) Restated to reflect the final allocation of the cost of the acquisition of Activaero GmbH (see note 29).

(2) The underlying currency of the goodwill associated with Activaero GmbH CGU is the euro. The restated goodwill balance of €9.9m is translated into sterling at the prevailing exchange rate on the balance sheet date. Any foreign exchange gain or loss is taken to the translation reserve, as shown in the statement of comprehensive income. The movement of £1m shown in the table above relates solely to movements in the £/€ exchange rate between 31 March 2014 and 31 March 2015.

10. Intangible assets

Group	Restated[1] Patents and trademarks £m	Licences £m	Total £m
Cost:			
At 1 April 2013	3.5	74.6	78.1
Acquired on acquisition of subsidiary (note 29)	115.6	15.1	130.7
Effect of movements in foreign exchange	(1.7)	(0.3)	(2.0)
At 31 March 2014	117.4	89.4	206.8
Effect of movements in foreign exchange	(13.1)	(1.7)	(14.8)
At 31 March 2015	**104.3**	**87.7**	**192.0**
Amortisation:			
At 1 April 2013	(3.5)	(57.5)	(61.0)
Charge for the year	(0.5)	(6.4)	(6.9)
At 31 March 2014	(4.0)	(63.9)	(67.9)
Charge for the year	(13.5)	(7.4)	(20.9)
Effect of movements in foreign exchange	0.9	0.2	1.1
At 31 March 2015	**(16.6)**	**(71.1)**	**(87.7)**
Net book value:			
At 31 March 2014	113.4	25.5	138.9
At 31 March 2015	**87.7**	**16.6**	**104.3**

(1) Restated to reflect the final allocation of the cost of the acquisition of Activaero GmbH (see note 29).

Intangible assets are being amortised on a straight-line basis over a period of between eight and ten years. The ultimate parent company, Vectura Group plc, had no intangible assets at 31 March 2015 or 31 March 2014.

11. Property, plant and equipment

Group	Assets in the course of construction £m	Freehold land and buildings £m	Lab equipment £m	Office and IT equipment £m	Total £m
Cost:					
At 1 April 2013	4.8	0.9	13.0	0.5	19.2
Additions	1.6	—	0.9	—	2.5
Acquired on acquisition of Activaero GmbH (note 29)	—	0.3	0.9	—	1.2
At 31 March 2014	6.4	1.2	14.8	0.5	22.9
Additions	—	—	1.4	—	1.4
Disposals	—	—	(0.9)	—	(0.9)
At 31 March 2015	**6.4**	**1.2**	**15.3**	**0.5**	**23.4**
Depreciation:					
At 1 April 2013	—	—	(9.8)	(0.4)	(10.2)
Charge for the year	—	—	(1.1)	—	(1.1)
At 31 March 2014	—	—	(10.9)	(0.4)	(11.3)
Charge for the year	—	—	(1.1)	(0.1)	(1.2)
Disposals	—	—	0.6	—	0.6
At 31 March 2015	**—**	**—**	**(11.4)**	**(0.5)**	**(11.9)**
Net book value:					
At 31 March 2014	6.4	1.2	3.9	0.1	11.6
At 31 March 2015	**6.4**	**1.2**	**3.9**	**—**	**11.5**

The ultimate parent company, Vectura Group plc, had no property, plant and equipment at 31 March 2015 or 31 March 2014.

12. Investments in subsidiary undertakings

Company	Shares in subsidiary undertakings £m
Cost:	
At 1 April 2013	125.7
Additions (note 29)	108.2
At 31 March 2014	233.9
Additions (note 29)	0.5
At 31 March 2015	**234.4**
Amounts written off:	
At 1 April 2013, 31 March 2014 and **31 March 2015**	**(0.1)**
Net book value:	
At 31 March 2014	233.8
At 31 March 2015	**234.3**

12. Investments in subsidiary undertakings continued

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
Vectura GmbH (formerly Activaero GmbH)	Germany	Ordinary	100%	Pharmaceuticals

(1) A subsidiary of Vectura Group Investments Limited.

(2) A subsidiary of Innovata Limited.

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

13. Investments in joint venture

The investment balance shown below relates to the Group's investment in Ventaleon GmbH, whose principal activity is the research and development of pharmaceuticals. Ventaleon is incorporated in Germany and its principal place of business is also Germany. The Group holds a 48% share in the Company.

Group	£m
Cost:	
At 1 April 2013	—
Additions (note 29)	3.5
Effect of movements in foreign exchange	(0.1)
At 31 March 2014	3.4
Share of result of joint venture	(1.4)
Effect of movements in foreign exchange	(0.3)
At 31 March 2015	**1.7**
Net book value:	
At 31 March 2014	3.4
At 31 March 2015	**1.7**

14. Other receivables

Group

Other receivables represent an investment bond of £0.4m (2014: £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 2015. Interest is recognised using the effective interest method.

15. Inventories

	Group		Company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Finished goods	**0.9**	1.0	**—**	—

16. Trade and other receivables

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Trade receivables	16.2	4.4	—	—
Other receivables[1]	2.9	3.4	—	—
Prepayments and accrued income	8.3	5.0	—	—
VAT recoverable	0.5	0.9	—	—
	27.9	13.7	—	—

(1) Includes research and development tax credits of £2.8m (2014: £3.3m).

The Directors consider that the carrying value of trade and other receivables approximates to their fair value.

17. Amounts due from and owed to subsidiary undertakings

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Amounts falling due within one year:				
Due from subsidiary undertakings	—	—	89.2	86.7
	—	—	89.2	86.7

18. Trade and other payables

	Group 2015 £m	Group Restated[1] 2014 £m	Company 2015 £m	Company 2014 £m
Amounts falling due within one year:				
Trade payables	2.5	2.3	—	—
Other payables	1.0	1.0	—	—
Accruals	17.1	14.1	—	—
	20.6	17.4	—	—

(1) Restated to reflect the final allocation of the cost of the acquisition of Activaero GmbH (see note 29).

The Directors consider that the carrying value of trade and other payables approximates to their fair value.

19. 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 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Amounts due within one year	0.2	0.1	—	—
Amounts due in more than one year	1.5	1.7	—	—
	1.7	1.8	—	—

20. Deferred tax liability

A net deferred tax liability of £23.7m (2014: £33.9m) has been recognised on the Group balance sheet, being a deferred tax liability of £29.0m (2014: £37.6m), offset by a deferred tax asset of £5.3m (2014: £3.7m).

A total deferred tax liability of £29.0m exists as at 31 March 2015. This balance is broken down as follows:

£m	Restated[1] Arising on acquisition of Activaero	Arising on acquisition of Innovata	Other temporary differences	Total
At 1 April 2014	(34.6)	(1.8)	(1.2)	(37.6)
Credited to the consolidated income statement	4.2	0.8	—	5.0
Effect of movements in foreign exchange	3.6	—	—	3.6
At 31 March 2015	**(26.8)**	**(1.0)**	**(1.2)**	**(29.0)**

(1) Restated to reflect the final allocation of the cost of the acquisition of Activaero GmbH (see note 29).

This liability is offset by a deferred tax asset in respect of German and UK cumulative tax losses. UK cumulative tax losses of approximately £54.0m (2014: £66.9m), subject to agreement with HMRC, are available within the Group to carry forward against future taxable profits. The total potential deferred tax asset in respect of UK tax losses, calculated at the rate of 20% (2014: 20%), is £10.7m (2014: £13.2m) and of this total an asset of £2.2m (2014: £1.1m) has been recognised.

The total recognised deferred tax asset of £5.3m is broken down as follows:

£m	Recognised on German cumulative tax losses	Recognised on UK cumulative tax losses	Total
At 1 April 2014	2.6	1.1	3.7
Credited to the consolidated income statement	0.7	1.1	1.8
Effect of movements in foreign exchange	(0.2)	—	(0.2)
At 31 March 2015	**3.1**	**2.2**	**5.3**

The Group has the following unrecognised potential deferred tax assets as at 31 March 2015:

	2015 £m	2014 £m
On UK cumulative tax losses	**8.5**	12.1
On unclaimed capital allowances	**0.2**	0.3
On unexercised share options	**1.0**	0.6
	9.7	13.0

21. 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:

	2015 £m	2014 £m
Cash and cash equivalents	**90.0**	81.7
Loans and receivables	**28.3**	14.1
	118.3	95.8

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 14).

There were no provisions against impaired assets at 31 March 2015 (31 March 2014: £nil). There are no amounts past due but not impaired (2014: £nil).

21. Financial instruments continued

Categories of financial instruments continued

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:

	2015 £m	2014 £m
Other	**(20.6)**	(17.4)

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 a going concern whilst 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 22), 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 where appropriate. Balance sheets at 31 March 2015 and 31 March 2014 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 Interbank Offered 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		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Net assets:				
Euro	**1.9**	5.7	**—**	—
US dollar	**22.9**	2.5	**—**	—
	24.8	8.2	**—**	—

Financial statements

21. 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 and a negative number indicates a decrease in profit and other equity where sterling strengthens against the relevant currency.

Group

	2015 £m	2014 £m
Euro currency impact – gain	0.2	0.5
US dollar currency impact – gain	2.5	0.2
Euro currency impact – loss	(0.2)	(0.5)
US dollar currency impact – loss	(2.1)	(0.2)

Company

The sensitivity analysis includes only outstanding foreign currency denominated items, being the euro deferred consideration liability. As explained above, the sensitivity analysis is conducted assuming a 10% increase and decrease in sterling against the euro. A positive number below indicates an increase in profit and other equity where sterling strengthens against the euro and a negative number indicates a decrease in profit and other equity where sterling weakens against the relevant currency.

	2015 £m	2014 £m
Euro currency impact – gain	2.3	2.6
Euro currency impact – loss	(2.8)	(3.2)

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 £0.4m of finance income during the year (2013/14: £0.4m). If interest rates had been 0.5% higher/lower, being management's assessment of a reasonably possible change in interest rates, and all other variables were constant, the Group's operating loss for the year ended 31 March 2015 would decrease/increase by £0.4m (2013/14: £0.3m).

All of 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 continually 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.

22. Equity

(a) Share capital

	2015 £m	No. '000	2014 £m	No. '000
Allotted, called up and fully paid:				
Ordinary shares of 0.025p each:				
At 1 April	0.1	399,654	0.1	334,456
Issued on exercise of share options	—	3,062	—	5,174
Issued on exercise of Sharesave options	—	181	—	172
Issued on exercise of LTIP options	—	561	—	646
Issued on placement of shares	—	—	—	33,565
Issued on acquisition of subsidiary (note 29)	—	—	—	25,641
At 31 March	0.1	403,458	0.1	399,654
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 2014 and 31 March 2015 the Company did not issue any ordinary shares to the Vectura Group plc Employee Benefit Trust (2013/14: nil).

Between 1 April 2014 and 31 March 2015 the Company issued 3,062,229 (2014: 5,173,784) ordinary shares of 0.025p each on the exercise of employee share options at a weighted average exercise price of 56.38p per share (2014: 61.19p).

Between 1 April 2014 and 31 March 2015 the Company issued 180,691 (2014: 171,736) ordinary shares of 0.025p each on the exercise of Sharesave options at a weighted average exercise price of 64.25p (2014: 55.5p) per share.

Between 1 April 2014 and 31 March 2015 the Company issued 561,253 (2014: 646,484) ordinary shares of 0.025p each on the exercise of LTIP nil-cost options.

During 2013/14, the Company placed 33,565,280 new shares at a price of £1.55 per share and the Company issued 25,641,398 to the shareholders of Activaero GmbH as part of the purchase consideration for 100% of its ordinary share capital. The ordinary shares issued have the same rights as the other shares in issue. The fair value of the shares issued amounted to £41m (£1.609 per share).

(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. Certain costs relating to share issues have also been charged to the share premium account.

(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 (IPO) on 2 July 2004, to enable re-registration as a public company. It is a non-distributable reserve.

22. Equity continued

(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, matching and free shares awarded under the Vectura Group plc Share Incentive Plan, calculated in accordance with IFRS 2.

(f) Translation reserve

Exchange differences relating to the translation of the net assets of the Group's foreign operations, which relate to subsidiaries only, from their functional currency into the parent's functional currency, being sterling, are recognised directly in the translation reserve.

23. 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") 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 from 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 of 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 is detailed in the Remuneration report. At 31 March 2015, 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	315,745
22 November 2009	257,565
2 March 2010	104,758
25 May 2010	446,636
23 May 2011	1,348,100
7 June 2014	1,739,647
18 September 2015(1)	1,551,964
7 June 2016(1)	1,963,022
1 July 2017(1)	983,594

(1) Maximum number of shares, subject to performance conditions.

23. Equity-settled share option schemes and Long-Term Incentive Plan continued

Fair value calculations

With the exception of the LTIP awards, the fair value of the options was determined using the Black-Scholes pricing model. The fair value of the LTIP awards has 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 Remuneration report.

Year of grant	2015	2014
The assumptions input into the Black-Scholes model were as follows:		
Weighted average share price of grants during the year	136.3p	163.0p
Weighted average exercise price of grants during the year	114.4p	130.4p
Expected volatility(1)	39%–41%	41%–45%
Expected life(2)	3 years	3–5 years
Expected dividends	Nil	Nil
Risk-free interest rate(3)	0.6%–1.4%	0.3%–1.2%
The assumptions input into the Monte Carlo model were as follows:		
Weighted average share price of grants during the year	135.3p	81.0p
Weighted average exercise price of grants during the year	0.025p	0.025p
Expected volatility(1)	40%	43%
Expected life(2)	3 years	3 years
Expected dividends	Nil	Nil
Risk-free interest rate(3)	1.5%	0.6%

(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 consolidated income statement.

(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 2015, including the LTIP, was £1,060,000 (2013/14: £890,000).

23. Equity-settled share option schemes and Long-Term Incentive Plan continued

Fair value calculations continued

The aggregate of the estimated fair value of options granted under share option schemes and Share Incentive Plan during the year ended 31 March 2015 was £373,000 (2013/14: £493,000) and under the SAYE Scheme £241,000 (2013/14: £59,000). The estimated fair value of LTIP awards during the year ended 31 March 2015 was £768,000 (2013/14: £780,000).

	Share option schemes		SAYE Scheme		LTIP	
Options outstanding	Number of options	WAEP[1] p	Number of options	WAEP[1] p	Number of options	WAEP[1] p
At 1 April 2013	12,689,439	60.64	1,559,668	53.50	9,999,733	0.025
Options granted	—	—	115,930	130.40	2,004,878	0.025
Options exercised	(5,167,784)	61.19	(171,736)	55.50	(646,484)	0.025
Options cancelled	—	—	(37,539)	47.95	(3,015,107)	0.025
At 31 March 2014	7,521,655	61.67	1,466,323	59.41	8,343,020	0.025
Options granted	—	—	621,775	114.40	1,076,791	0.025
Options exercised	(3,062,229)	56.38	(180,691)	64.25	(561,253)	0.025
Options cancelled	(55,597)	62.63	(75,693)	85.12	(147,527)	0.025
At 31 March 2015	**4,403,829**	**65.34**	**1,831,714**	**77.16**	**8,711,031**	**0.025**
Range of exercise prices		36.0p–104.0p		47.4p–130.4p		0.025p
Weighted average remaining contractual life (years)		1.77 (2014: 2.19)		1.71 (2014: 1.67)		5.65 (2014: 6.05)

Options vested						
At 31 March 2014	6,986,739	59.75	—	—	2,791,393	0.025
At 31 March 2015	**4,276,365**	**65.30**	**—**	**—**	**4,212,451**	**0.025**
Weighted average remaining contractual life (years)		1.60 (2014: 1.80)	—	—		1.53 (2014: 2.82)

(1) Weighted average exercise price.

24. Analysis of net funds

Group	1 April 2014 £m	Cash flow £m	**31 March 2015 £m**
Cash and cash equivalents	81.7	8.3	**90.0**

The Company had no net funds at 31 March 2015 and 31 March 2014.

25. Retirement benefit 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 to the consolidated income statement is detailed in note 6.

26. 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:

	Land and buildings		Other	
Group	**2015 £m**	2014 £m	**2015 £m**	2014 £m
Expiry date:				
Within one year	**0.5**	0.5	**0.1**	—
In the second to fifth years inclusive	**0.5**	0.8	**—**	0.1
	1.0	1.3	**0.1**	0.1

26. Operating lease arrangements continued

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 November 2014, the Group extended two leases for adjacent premises at Cambridge Science Park, Milton Road, Cambridge for a further three years commencing 25 December 2014 and expiring on 24 December 2017. The Group and the landlord have the option to cancel the leases on 31 December 2015 or at any time thereafter on giving six months' prior written notice.

On 18 March 2014, the Group acquired, as part of the Activaero GmbH acquisition, an agreement in respect of premises at Gauting, Germany. The Group has the right to break the lease with a maximum of nine months' notice.

The Company had no operating lease arrangements at 31 March 2015 or 31 March 2014.

27. Capital and other commitments

At 31 March 2015 the Group had no capital commitments contracted, but not provided for (2013/14: £0.3m). The Company had no capital and other commitments at 31 March 2015 or 31 March 2014.

28. 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.

	2015 £m	2014 £m
Short-term employee benefits	**3.8**	2.3
Post-employment benefits	**0.2**	0.2
Share-based compensation	**0.3**	0.3
	4.3	2.8

Three Directors are members of money purchase pension schemes.

Please refer to the Remuneration report on page 68 for the single figure of remuneration for each Director.

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:				
2014	—	0.9	86.7	—
2015	**—**	**1.1**	**89.2**	**—**

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

29. Business combinations

On 18 March 2014, the Group acquired 100% of the issued share capital and obtained control of Activaero GmbH ("Activaero"), a company focused on the development of products for the treatment of respiratory diseases.

In accordance with IFRS 3 – Business Combinations, the fair values assigned to the identifiable assets, liabilities and contingent liabilities acquired with the Activaero business on 18 March 2014 were determined provisionally on that date and these provisional estimates have been revised in the period to 18 March 2015 to reflect new information about facts and circumstances that existed as of the acquisition date. The revised amounts have been recognised as though they were the amounts known at the acquisition date and so comparative information for the prior year has been restated.

29. Business combinations continued

During the year, an additional payment of €0.6m was made in respect of working capital items that were acquired during the acquisition. Accordingly, the goodwill associated with the transaction has increased from €9.3m to €9.9m.

The following table shows the original fair values of the net assets acquired from Activaero and the adjustments made to the original fair values.

	£m Provisional	£m Revisions	£m Final
Identifiable intangible assets (note 10)	130.7	—	130.7
Property, plant and equipment (note 11)	1.2	—	1.2
Investment in joint venture (note 13)	3.5	—	3.5
Inventories	0.4	—	0.4
Trade and other payables	(2.7)	—	(2.7)
Deferred tax liability	(32.7)	—	(32.7)
Total identifiable assets	100.4	—	100.4
Goodwill	7.8	0.5	8.3
Acquisition value	**108.2**	**0.5**	**108.7**

The transaction contains certain translations of euros into amounts in pounds sterling based on the exchange rate of £1.00 = €1.1913, being the published exchange rate by the Financial Times at the close of business on 18 March 2014, the date of acquisition.

Satisfied by:

	£m
Cash	37.8
Equity instruments (25,641,398 ordinary shares)	41.3
Additional cash payment	0.5
Deferred consideration payable in August 2015	29.1
Total consideration	**108.7**

The initial cash payment of €45m (£37.8m) and the equity component of the consideration were payable upon legal completion of the acquisition. During the year, an additional payment of €0.6m (£0.5m) was made to reflect working capital items acquired.

The final element of consideration, being the deferred consideration of €35m, is payable in August 2015. The deferred cash consideration is non-contingent. The total liability has been translated into sterling at the prevailing £/€ exchange rate on the balance sheet date and is shown as a current liability of £25.6m on the balance sheet as at 31 March 2015.

30. Post-balance sheet events

In April 2015, the share capital of Ventaleon GmbH increased following an additional capital injection by certain of the Company's investors. Vectura did not participate in this round of funding and, accordingly Vectura's percentage holding in this joint venture decreased from 48% to 42%.

FIVE-YEAR SUMMARY

year ended 31 March

Unaudited Year ended 31 March	2011 £m	2012 £m	2013 £m	2014 £m	**2015** **£m**
Consolidated statement of comprehensive income					
Revenue	42.9	33.0	30.5	36.5	**58.0**
Gross profit	40.2	30.8	29.8	35.5	**55.6**
Gross profit margin	94%	93%	98%	97%	**96%**
Research and development expenses	(36.4)	(31.7)	(29.9)	(26.9)	**(36.1)**
Other administrative expenses	(3.3)	(3.3)	(3.3)	(3.4)	**(4.5)**
EBITDA	0.5	(4.2)	(3.4)	5.2	**16.2**
Non-recurring acquisition costs	—	—	—	(2.5)	**—**
Amortisation of intangible assets	(10.7)	(7.5)	(6.3)	(6.9)	**(20.9)**
Depreciation of assets	(1.3)	(1.1)	(1.0)	(1.1)	**(1.2)**
Share-based compensation	(1.8)	(1.1)	(0.9)	(0.9)	**(1.1)**
Operating loss	(13.3)	(13.9)	(11.6)	(6.2)	**(7.0)**
Investment income	0.8	0.7	0.5	1.6	**0.5**
Finance gains/(costs)	(0.8)	—	0.7	(0.2)	**1.7**
Share of result of joint venture	—	—	—	—	**(1.4)**
Loss before taxation	(13.3)	(13.2)	(10.4)	(4.8)	**(6.2)**
Taxation	4.5	8.8	4.5	2.5	**9.9**
Profit/(loss) after taxation	(8.8)	(4.4)	(5.9)	(2.3)	**3.7**
Earnings/(loss) per ordinary share	(2.7p)	(1.3p)	(1.8p)	(0.7p)	**0.9p**
Cash flow statement					
Operating loss	(13.3)	(13.9)	(11.6)	(6.2)	**(7.0)**
Depreciation and amortisation	12.0	8.6	7.3	8.0	**22.1**
Share-based compensation	1.8	1.1	0.9	0.9	**1.1**
(Increase)/decrease in working capital	0.2	2.4	(1.1)	(8.3)	**(13.5)**
(Decrease)/increase in deferred income	2.8	(0.7)	(3.4)	0.4	**(0.1)**
Exchange movements	(0.8)	—	0.7	(0.2)	**1.8**
Taxation paid	(0.1)	—	—	—	**—**
Research and development tax credits received	8.2	4.6	4.4	4.7	**3.6**
Net cash inflow/(outflow) from operating activities	10.8	2.1	(2.8)	(0.7)	**8.0**
Net capital expenditure	(1.4)	(4.2)	(3.8)	(2.3)	**(1.4)**
Free cash flow inflow/(outflow)	9.4	(2.1)	(6.6)	(3.0)	**6.6**
Balance sheet					
Cash and cash equivalents	74.4	75.5	70.1	81.7	**90.0**
Shareholders' equity	140.3	139.5	135.1	226.7	**221.9**
Net current assets	59.6	61.7	60.3	79.4	**72.4**

The references listed below relate to the sourced text on pages 10 to 13 of this report.

1) WHO (World Health Organization)

2) Global Initiative for Chronic Obstructive Lung Disease. *"Global strategy for the diagnosis, management, and prevention of chronic obstructive pulmonary disease."* www.goldcopd.org/uploads/users/files/GOLD_Report_2014

3) www.who.int/respiratory/copd/en/

4) Hoyert DL, Xu JQ (2012). *"Deaths: preliminary data for 2011."* Natl Vital Stat Rep. 61(6): 1–65. Hyattsville, MD: National Center for Health Statistics.

5) "Influenza (seasonal) fact sheet N°211" (March 2014). www.who.int/mediacentre/factsheets/fs211/en/

6) Ebell MH, Call M, Shinholser J (2013). *"Effectiveness of oseltamivir in adults: a meta-analysis of published and unpublished clinical trials."* Family Practice. 30(2): 125–33. doi:10.1093/fampra/cms059. PMID 22997224.

7) Michiels B, Van Puyenbroeck K, Verhoeven V, Vermeire E, Coenen S (2013). *"The value of neuraminidase inhibitors for the prevention and treatment of seasonal influenza: a systematic review of systematic reviews."* PLoS ONE. 8(4): e60348. doi:10.1371/journal.pone.0060348. PMC 3614893. PMID 23565231.

8) www.who.int/genomics/public/geneticdiseases/en/index2.html

9) www.cdc.gov/rsv/about/infection.html

10) Peacock AJ, Murphy NF, McMurray JJV, et al. (2007). *"An epidemiological study of pulmonary arterial hypertension."* Eur Respir J. 30: 104–9.

11) Benza RL, Miller DP, Barst RJ, Badesch DB, Frost AE, McGoon MD (2012). *"An evaluation of long-term survival from time of diagnosis in pulmonary arterial hypertension from the REVEAL Registry."* Chest. 142(2): 448–56. doi:10.1378/chest.11–1460. PMID 22281797.

12) www.census.gov/population/international/data/idb/worldpoptotal.php (Accessed 8 May 2015).

13) World Population Ageing 1950–2050 – Population Division, DESA, United Nations.

14) Data on file – Source IMS Disease Insight Series 2014.

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(Chief Executive)

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(Chief Financial Officer)

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(Chief Operations Officer and President of US Operations)

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